

*In the opinion of Ice Miller, Indianapolis, Indiana ("Bond Counsel"), under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, for federal income tax purposes. Such exclusion is conditioned upon continuing compliance by the Authority and the Borrower, as defined herein, with the Tax Covenants, as defined herein. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is exempt from income taxation in the State of Indiana. See information under the caption "TAX MATTERS" herein.*

**\$24,000,000**

## **INDIANA HEALTH AND EDUCATIONAL FACILITY FINANCING AUTHORITY**



### **Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project) (Auction Rate Securities)**

**Dated: Date of Issuance**

**Price: 100%**

**Due: July 1, 2035**

The Indiana Health and Educational Facility Financing Authority (the "Authority") is issuing its \$24,000,000 Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project) (the "Bonds"), pursuant to a Trust Indenture dated as of July 1, 2005 (the "Bond Indenture"), between the Authority and J. P. Morgan Trust Company, National Association, as bond trustee (the "Bond Trustee"). The proceeds of the Bonds will be loaned to Marion General Hospital, Inc. (the "Borrower"), pursuant to a Loan Agreement dated as of July 1, 2005 (the "Loan Agreement"), between the Authority and the Borrower and will be used to (i) finance or reimburse a portion of the cost of constructing, acquiring, renovating and equipping certain health care facilities constituting health facility property within the meaning of Indiana Code 5-1-16, as amended; (ii) refund the Authority's outstanding Hospital Revenue Bonds, Series 1995 (Marion General Hospital Project); (iii) pay certain costs of issuing the Bonds, and (iv) obtain credit enhancement for the Bonds.

The Bonds will be issued initially as auction rate securities in denominations of \$25,000 or any integral multiple thereof. The Bonds will initially bear interest at Auction Rates (as defined herein) for successive 7-day Auction Periods (as defined herein) as described herein; provided, however, that the initial Auction Period with respect to the Bonds will be 5 days. Each Auction Rate for the Bonds will, except in certain cases, be equal to the annual interest rate that results from the implementation of the Auction Procedures described in Appendix D hereto. At the election of the Borrower, the Bonds may be converted to auction rate securities bearing interest at Auction Rates determined on the basis of a 28-day Auction Period or 35-day Auction Period or to other Interest Rate Periods (as defined herein). The Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") under the book-entry-only system maintained by DTC. So long as Cede & Co. is the registered owner of the Bonds, the principal and tender price of and premium, if any, and interest on the Bonds will be payable by the Bond Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as more fully described herein.

The Bonds are subject to mandatory and optional redemption prior to maturity as more fully described herein. While bearing interest at an Auction Rate, the Bonds are subject to mandatory tender for purchase in the manner described herein.

**THE BONDS WILL BE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND, EXCEPT TO THE EXTENT PAYABLE FROM BOND PROCEEDS OR MONEYS DERIVED FROM THE INVESTMENT THEREOF AND INSURANCE AND CONDEMNATION PROCEEDS, WILL BE PAYABLE SOLELY FROM AND SECURED BY PAYMENTS, REVENUES AND OTHER AMOUNTS DERIVED BY THE AUTHORITY FROM THE BORROWER AND OTHER MEMBERS OF THE OBLIGATED GROUP, IF ANY, PURSUANT TO THE LOAN AGREEMENT, THE SERIES 2005 NOTE AND THE MASTER INDENTURE, ALL AS DEFINED HEREIN. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OF INDIANA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE, OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO THE HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST OR ANY PREMIUM ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.**

An investment in the Bonds involves a certain degree of risk related to the nature of the business of the Borrower, the regulatory environment, and the provisions of the principal documents. A prospective Bondholder is advised to read "SECURITY FOR THE BONDS" and "BONDHOLDERS' RISKS" herein for a description of the security for the Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by CIFG Assurance North America, Inc. (the "Bond Insurer").



This Official Statement generally describes the terms of the Bonds only while the Bonds are auction rate securities as described herein. As described herein, the Borrower may elect to convert the Bonds to other Interest Rate Periods as provided in the Bond Indenture. See APPENDIX C, "SUMMARY OF THE PROVISIONS OF THE PRINCIPAL DOCUMENTS (INCLUDING DEFINITIONS) - Summary of the Provisions of the Bond Indenture." If such conversion occurs, the Bonds will be subject to mandatory tender and purchase and this Official Statement will be supplemented or a new official statement or reoffering circular will be delivered to describe the new Interest Rate Period.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Bonds by Ice Miller, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed upon for the Authority by its Bond Counsel, Ice Miller, Indianapolis, Indiana, for the Borrower by its counsel, Ice Miller, Indianapolis, Indiana, and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about July 20, 2005.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**Piper Jaffray & Co.**

**City Securities Corporation**

**July 13, 2005**

**\$24,000,000**  
**Indiana Health and Educational Facility Financing Authority**  
**Hospital Revenue Bonds, Series 2005**  
**(Marion General Hospital Project)**  
**(Auction Rate Securities)**

<u>Tax Status</u>	<u>Initial Auction</u>	<u>Auction Date Generally</u>	<u>Initial Interest Payment Date</u>	<u>Interest Payment Date Generally</u>	<u>Length of Auction Period Generally</u>	<u>Final Maturity Date</u>	<u>CUSIP Number</u>
Non-AMT	7/25/2005	Every Monday	7/26/2005	Every Tuesday	7 Days	7/1/2035	45479R AA 5

The Bonds will bear interest from the date of original delivery for the initial period set forth above at the rate established by Piper Jaffray & Co. (the "Managing Underwriter") prior to the date of delivery. Thereafter, the Bonds will bear interest at the Auction Rate for each successive Auction Period, until a conversion to a Daily, Weekly, Short-Term or Long-Term Interest Rate Period (as defined herein). Interest will be payable on the initial interest payment date set forth above and thereafter on the day following the end of each ARS Rate Interest Period (as defined herein) for the Bonds.

The Bank of New York will act as the Auction Agent, and Piper Jaffray & Co. will serve as the initial Broker-Dealer with respect to the Bonds.

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority, the Borrower, the Bond Insurer or the Underwriters to give information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Borrower and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed to be the representation of the Authority or the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein under the caption "THE AUTHORITY" and under the heading "LITIGATION-Authority" has been furnished by the Authority. All other information set forth herein has been obtained from the Borrower, the Bond Insurer, DTC, and other sources that are believed to be reliable, but the adequacy, accuracy or completeness of such information is not guaranteed by the Authority or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower, the Bond Insurer or DTC since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND NEITHER THE BOND INDENTURE NOR THE MASTER INDENTURE (AS SUCH TERMS ARE DEFINED HEREIN) HAVE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BORROWER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

The statements contained in this Official Statement, including, but not limited to, the sections "BONDHOLDERS' RISKS" and "CERTAIN FINANCIAL INFORMATION" and "MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATIONS" in APPENDIX A hereto and any other information provided by the Borrower that are not purely historical, are forward-looking statements, including statements of the Borrower's expectations, hopes and intentions, or strategies regarding the future.

The forward-looking statements herein are necessarily based on various assumptions and estimates, and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Official Statement would prove to be accurate.

**READERS SHOULD NOT PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT ARE BASED ON INFORMATION AVAILABLE TO THE BORROWER ON THE DATE HEREOF, AND THE BORROWER ASSUMES NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS.**

## **TABLE OF CONTENTS**

Introduction .....	1
The Authority .....	4
The Bonds.....	5
Security for the Bonds.....	11
The Bond Insurer and the Financial Guaranty Insurance Policy.....	13
The Project and the Plan of Finance .....	15
Estimated Sources and Uses of Funds .....	15
Estimated Annual Debt Service Requirements.....	16
Bondholders' Risks .....	17
Litigation.....	40
Tax Matters .....	40
Legal Matters .....	41
Ratings .....	41
Continuing Disclosure.....	42
Underwriting.....	43
Financial Statements and Independent Auditors .....	43
Financial Advisory Services.....	43
Miscellaneous .....	43

### **Appendices**

- Appendix A -- Information Concerning Marion General Hospital, Inc.
- Appendix B -- Audited Consolidated Financial Statements of the Borrower
- Appendix C -- Summary of the Provisions of the Principal Documents (Including Definitions)
- Appendix D -- Summary of Certain Procedures Relating to Auction Rate Securities
- Appendix E -- Form of Opinion of Bond Counsel
- Appendix F -- Specimen Bond Insurance Policy

**Official Statement  
relating to**

**\$24,000,000**

**Indiana Health and Educational Facility Financing Authority  
Hospital Revenue Bonds, Series 2005  
(Marion General Hospital Project)**

**INTRODUCTION**

This Official Statement, including the cover page, preliminary pages and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the offering of \$24,000,000 principal amount of Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project), of the Indiana Health and Educational Facility Financing Authority (the "Bonds"). The Bonds will be issued under a Trust Indenture, dated as of July 1, 2005 (the "Bond Indenture"), between the Indiana Health and Educational Facility Financing Authority (the "Authority") and J.P. Morgan Trust Company, National Association, Indianapolis, Indiana, as trustee (the "Bond Trustee").

*Definitions of certain terms not otherwise defined herein appear in Appendix C hereto.*

**The Authority**

The Authority is a public body politic and corporate of the State of Indiana (the "State"), not an agency of the State but an independent public instrumentality exercising essential public functions. The Authority is the successor to the Indiana Health Facility Financing Authority (the "IHFFA") and the Indiana Educational Facilities Authority. Pursuant to Indiana Code 5-1-16, as amended (the "Act"), and resolutions adopted by the governing body of the Authority, the Authority is authorized to issue the Bonds; to lend the proceeds thereof to the Borrower (as hereinafter defined) in order to finance or reimburse a portion of the cost of constructing, acquiring, renovating or equipping certain health care facilities (the "Project"); to refund the Authority's outstanding Hospital Revenue Bonds, Series 1995 (Marion General Hospital Project) (the "Refunded Bonds"), pay certain costs of issuance of the Bonds, and obtain credit enhancement for the Bonds; and to secure the Bonds by a pledge and assignment to the Bond Trustee of the Series 2005 Note (as hereinafter defined) and all rights (except as hereinafter described) under the Loan Agreement, dated as of July 1, 2005 (the "Loan Agreement"), between the Authority and the Borrower. See "THE AUTHORITY."

**The Bonds constitute special and limited obligations of the Authority and, except to the extent payable from Bond proceeds or moneys derived from the investment thereof and insurance and condemnation proceeds, will be payable solely from and secured by payments, revenues and other amounts derived by the Authority from the Borrower and other members of the Obligated Group (as defined in Appendix C), if any, pursuant to the Loan Agreement, the Series 2005 Note and the Master Indenture (all as defined herein), as well as all proceeds of the trust estate created under the Bond Indenture, including without limitation, all amounts in all funds (except the Rebate Fund). The Bonds do not represent or constitute a debt of the Authority or the State, or any political subdivision thereof, or a pledge of the faith and credit of the Authority, the State or any political subdivision thereof, and the Bonds do not grant to any holder thereof the right to have the Authority, the State, or any political subdivision thereof, levy any taxes or appropriate any funds for the payment of the principal thereof or the interest or any premium on the Bonds. The Authority has no taxing power.**

**The Borrower**

Marion General Hospital, Inc., an Indiana nonprofit corporation (the "Borrower"), owns and operates Marion General Hospital, an acute care facility licensed for 149 acute care beds, 20 newborn bassinets and 18 acute care rehabilitation beds located in Marion, Indiana. See Appendix A for certain information about the history, organization and financial performance of the Borrower. See Appendix B for certain consolidated financial statements of the Borrower.

## **Purpose**

The Bonds are being issued for the purpose of providing funds to lend to the Borrower under the Loan Agreement. The Bond proceeds borrowed by the Borrower will be used to pay a portion of the costs of the Project, refund the Refunded Bonds, pay the costs of issuance, and obtain credit enhancement for the Bonds. See "THE PROJECT AND PLAN OF FINANCE."

## **Description of the Bonds**

The Bonds will be issued as auction rate securities bearing interest for Auction Periods but may be converted at the option of the Borrower, subject to certain restrictions, to bonds which bear interest at different types of interest rate periods as described below. While the Bonds bear interest at an Auction Rate, the Bonds are referred to in this Official Statement as "Auction Rate Securities." This Official Statement provides descriptions of the Bonds in an Auction Period only. Upon conversion from an ARS Interest Rate Period (as defined in Appendix C) to a different Interest Rate Period, the Bonds will be subject to mandatory tender. If the Bonds are converted to a Weekly Interest Rate Period, Daily Interest Rate Period, Long-Term Interest Rate Period, or Short-Term Interest Rate Period, this Official Statement will be supplemented or a new official statement or remarketing circular will be distributed describing the Bonds operating in such an Interest Rate Period. For a description of the Weekly Interest Rate Period, the Daily Interest Rate Period, the Long-Term Interest Rate Period, and the Short-Term Interest Rate Period, see the Bond Indenture.

The Bonds will be dated their date of delivery, will bear interest from their date of original delivery for the initial period as set forth on the inside cover page of this Official Statement at the rate established by the Underwriters prior to the delivery of the Bonds and thereafter at the applicable Auction Rate unless converted to a different Interest Rate Period.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. Interest on the Bonds, together with the principal of and redemption premium, if any, on the Bonds, will be paid by the Bond Trustee directly to DTC, so long as DTC or its nominee is the registered owner of the Bonds. The final disbursement of such payments to Beneficial Owners of the Bonds will be the responsibility of the DTC Participants and Indirect Participants, all as defined and more fully described herein. See "THE BONDS – Book-Entry-Only System."

The Bonds are subject to optional redemption prior to maturity in whole or in part. The Bonds are subject to mandatory sinking fund redemption. The Bonds are also subject to special optional redemption from amounts derived from insurance or condemnation awards in whole or in part in case any Operating Assets (as hereinafter defined) of the Obligated Group are damaged, destroyed or condemned. Notice of redemption will be sent by first class mail not less than 30 days nor more than 60 days before the redemption date to each owner of a Bond to be redeemed. See "THE BONDS -- Redemption."

The Bonds may be transferred or exchanged only upon the bond register maintained by the Bond Trustee. See "THE BONDS -- Registration, Transfer and Exchange."

## **Security**

*The Loan Agreement, the Series 2005 Note and the Master Indenture.* The terms of the Loan Agreement will require the Borrower to issue and deliver to the Authority a Series 2005 Note dated as of July 1, 2005 (the "Series 2005 Note") in the principal amount of \$24,000,000, which the Authority will assign to the Bond Trustee. The terms of the Series 2005 Note will require payments by the Borrower which, in the aggregate and together with the other moneys available therefor, are intended to pay the principal of, premium, if any, and interest on the Bonds when due. The Series 2005 Note will be issued pursuant to a Master Trust Indenture, as previously supplemented and amended (the "Master Trust Indenture"), dated as of July 1, 1991, by and between the Borrower and J.P. Morgan Trust Company, National Association (successor in interest to INB National Bank), Indianapolis, Indiana,

as trustee (the "Master Trustee") and a Supplemental Master Indenture No. 8, dated as of July 1, 2005, between the Borrower and the Master Trustee (the "Supplemental Master Indenture No. 8"), and will be on a parity with a Series 2002 Note (the "Series 2002 Note") issued by the Borrower pursuant to a Supplemental Indenture No. 7 (also a "Supplemental Indenture"), dated as of May 1, 2002, between the Borrower and the Master Trustee (the Master Trust Indenture, as supplemented and amended from time to time, together with each Supplemental Indenture, collectively referred to as the "Master Indenture"). The Borrower also issued its Series 1995 A Note (the "Series 1995 A Note") pursuant to the Master Indenture and a Supplemental Indenture No. 4 dated April 1, 1995, between the Borrower and the Master Trustee. The Series 1995 A Note evidences and secures the Borrower's obligation to repay a loan of the proceeds of the Authority's Hospital Revenue Bonds, Series 1995 (Marion General Hospital Program) (the "1995 Bonds"). The Borrower, simultaneously with the issuance of the Series 1995 A Note, issued and delivered to MBIA Insurance Corporation (the "1995 Bond Insurer") a Series 1995 B Note (the "Series 1995 B Note" and together with the Series 1995 A Note, collectively referred to as the "Series 1995 Notes"), pursuant to Supplemental Master Indenture No. 5, dated as of April 1, 1995, for the purpose of securing its obligations pursuant to the Financial Guaranty Agreement dated the date of initial delivery of the Series 1995 Bonds, between the Borrower and the 1995 Bond Insurer. The Series 1995 Notes will be retired upon the issuance of the Bonds.

All indebtedness issued by the Borrower or any other Obligated Issuer (as defined in Appendix C) under the Master Indenture, including the Series 1995 Notes, the Series 2002 Note and the Series 2005 Note (collectively, the "Notes"), is secured under the Master Indenture by a security interest in the Gross Revenues, Accounts, Bank Accounts, General Intangibles, Contract Rights and all Related Rights (each as defined in Appendix C) of the Obligated Group. At the time of issuance of the Bonds, neither the Borrower nor any other Obligated Issuer will grant a mortgage or security interest in any other Property (as defined in Appendix C) to the Master Trustee as security for their obligations under the Series 2005 Note or the Loan Agreement. The Borrower and each other Obligated Issuer have covenanted not to grant a mortgage or security interest in their Property to any other creditor except in limited circumstances. However, the Hospital will covenant in Supplemental Indenture No. 8 to execute and deliver a Mortgage (as defined and described under the caption "SECURITY FOR THE BONDS - The Master Indenture - *Negative Pledge*") under certain circumstances. See the caption, "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE -- Restrictions on Mortgages" in Appendix C. The Series 2005 Note will be the obligation of the Borrower and other Obligated Issuers, if any, and will entitle the holder(s) thereof to the protection of the covenants, restrictions and other obligations imposed upon the Borrower and the other Obligated Issuers, if any, by the Master Indenture. Presently, the Borrower is the only member of the Obligated Group. It is not currently anticipated that any other entities will become members of the Obligated Group.

*Outstanding Bonds and Notes; Additional Notes.* The Authority has previously issued its \$29,690,000 Hospital Revenue Bonds, Series 2002 (Marion General Hospital Project) (the "Series 2002 Bonds" or the "Prior Bonds") pursuant to a separate indenture of trust and pledge (the "2002 Indenture"). The Authority also has previously issued its \$16,180,000 Hospital Revenue Bonds, Series 1995 (the "Refunded Bonds"), of which \$16,180,000 remain outstanding, which will be refinanced upon the issuance of the Bonds. The Series 2002 Bonds are limited revenue obligations of the Authority payable solely from and secured exclusively by funds and revenues described in the 2002 Indenture, including and primarily consisting of payments to be made by the Borrower under the Series 2002 Note and the related loan agreement. The Prior Bonds are not secured by the Bond Indenture and the Series 2005 Bonds are not secured by the 2002 Indenture. The Series 2005 Note and the Series 2002 Note are equally and ratably secured by the Master Indenture on a parity basis. See "ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS" herein. Additional Notes may be issued by the Borrower and other Obligated Issuers, if any, upon the terms and subject to the conditions provided in the Master Indenture, and such Notes will be secured on a parity with the Series 2005 Note and the Series 2002 Note. See "SECURITY FOR THE BONDS – The Master Indenture – *Additional Notes.*"

## **Bond Insurance**

Payment of the principal of and interest on the Bonds will be guaranteed by a financial guaranty insurance policy (the "Bond Insurance Policy") issued by CIFG Assurance North America, Inc. (the "Bond Insurer"), concurrently with the issuance of the Bonds. The Bond Insurance Policy does not insure the payment of the Bonds upon optional or mandatory redemption (other than mandatory sinking fund redemption) or any payment to be made on an accelerated basis. See "BOND INSURANCE" herein.

## **Bondholders' Risks**

There are risks associated with the purchase of the Bonds. See "BONDHOLDERS' RISKS" herein.

## **Disclosure Information**

This Official Statement contains descriptions of, among other matters, the Bonds, the Series 2005 Note, the Bond Indenture, the Loan Agreement, the Master Indenture, the Bond Insurer, the Bond Insurance Policy, and the Borrower. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the Loan Agreement and the Master Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds and the Series 2005 Note are qualified in their entirety by reference to the forms thereof included in the Bond Indenture and the Master Indenture, respectively. Until the issuance and delivery of the Bonds, copies of the Bond Indenture, the Loan Agreement, the Master Indenture and other documents described herein may be obtained from Piper Jaffray & Co., the Managing Underwriter of the Bonds. After delivery of the Bonds, copies of such documents will be available for inspection at the principal corporate trust office of the Bond Trustee.

## **THE AUTHORITY**

The Authority was established on May 15, 2005, as the successor to the IHFFA pursuant to the provisions of the Act, and is organized and existing under and by virtue of the Act as a public body politic and corporate, not as an agency of the State, but an independent public instrumentality exercising essential public functions. Under the Act, in addition to financing facilities for institutions of higher education, the Authority is authorized to make loans to "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Act). The Authority may finance health facility property located in Indiana or outside Indiana if the financing also includes a substantial component, as determined by the Authority, for the benefit of a health facility located in Indiana. Further, the participating provider (or an affiliate thereof) in any financing for a health facility outside Indiana must operate a substantial health facility, as determined by the Authority, in Indiana. The Authority has no taxing power.

The Act provides that the Authority shall consist of seven members, four of whom are appointed by the Governor of the State for terms of four years each. Two of the four members appointed by the Governor must be knowledgeable in health care or public finance and investment matters related to health care, and two of the members appointed by the Governor must be knowledgeable in higher education or public finance and investment matters related to higher education. The Authority shall also include among its members (i) the Governor or the Governor's designee, who shall serve as chairman of the Authority, (ii) the State public finance director or the State public finance director's designee, and (iii) the State health commissioner or the State health commissioner's designee. All Authority members must be residents of the State, with not more than three of the four members appointed by the Governor being of the same political party. All Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Authority. The Governor shall appoint an Executive Director to serve at the pleasure of the Governor and to receive such compensation as the members of the Authority shall determine. The Executive Director serves as an *ex officio* secretary of the Authority,



administers, manages and directs the employees of the Authority (under the direction of the members of the Authority), approves all accounts and expenses and performs other and additional duties as directed by the members of the Authority.

The Act provides that the State pledges to, and agrees with, the holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged; provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations.

The Authority has undertaken and will continue to undertake other types of financings for the purposes authorized by and in accordance with the procedures set forth in the Act, including loans to other participating providers, equipment financing programs, small loan programs and pooled loan programs. The Bonds neither have nor will have any claim of payment from the security or revenues pledged for the payment of the obligations issued by the Authority in connection with any and all such financings, and no such obligations have or will have any claim of payment from the security or revenues pledged for the payment of the Bonds. Obligations of the Authority outstanding or issued subsequent to the issuance of the Bonds are payable solely from the revenues derived from the programs or from participating providers in connection with which such obligations were issued.

**THE BONDS CONSTITUTE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND, EXCEPT TO THE EXTENT PAYABLE FROM BOND PROCEEDS OR MONEYS DERIVED FROM THE INVESTMENT THEREOF AND INSURANCE AND CONDEMNATION PROCEEDS, WILL BE PAYABLE SOLELY FROM AND SECURED BY PAYMENTS, REVENUES AND OTHER AMOUNTS DERIVED BY THE AUTHORITY FROM THE BORROWER AND OTHER MEMBERS OF THE OBLIGATED GROUP, IF ANY, PURSUANT TO THE LOAN AGREEMENT, THE SERIES 2005 NOTE, AND THE MASTER INDENTURE, AS WELL AS ALL PROCEEDS OF THE TRUST ESTATE CREATED UNDER THE BOND INDENTURE, INCLUDING WITHOUT LIMITATION, ALL AMOUNTS IN ALL FUNDS (EXCEPT THE REBATE FUND). THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO ANY HOLDER THEREOF THE RIGHT TO HAVE THE AUTHORITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST OR ANY PREMIUM ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.**

## **THE BONDS**

### **Description of the Bonds**

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds and to the Bond Indenture. The discussion herein is qualified by such reference. See Appendix C, "SUMMARY OF THE PROVISIONS OF THE PRINCIPAL DOCUMENTS (INCLUDING DEFINITIONS)" and Appendix D, "SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES."

**THIS OFFICIAL STATEMENT ONLY DESCRIBES THE TERMS AND PROVISIONS OF THE BONDS WHILE BEARING INTEREST IN THE ARS INTEREST RATE PERIOD. IF THE BONDS ARE CHANGED FROM THE ARS INTEREST RATE PERIOD TO A DIFFERENT INTEREST RATE PERIOD, THE BONDS WILL BE SUBJECT TO MANDATORY TENDER AND PURCHASE AND, AT THAT TIME, THIS OFFICIAL STATEMENT WILL BE SUPPLEMENTED OR A NEW OFFICIAL STATEMENT OR REMARKETING CIRCULAR WILL BE PREPARED.**

Certain terms used under this caption are defined in Appendix C and Appendix D.

## **Auction Rate Securities**

*General.* The Bonds initially will be issued as Auction Rate Securities in the aggregate principal amount of \$24,000,000. The Bonds will be dated the date of their initial authentication and delivery and will mature on the maturity date set forth on the cover page of this Official Statement. The Auction Rate for the Auction Period beginning on the Closing Date shall be determined by the Underwriters. Thereafter, the Auction Rate for the Bonds will be determined for successive 7-day Auction Periods through the implementation of the Auction Procedures (see Appendix D, "SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES – Description of Auction -- Auction Procedures"), unless the Auction Period for the Bonds is changed to a 28-day Auction Period or a 35-day Auction Period or the Bonds are converted to another Interest Rate Period as provided for in the Bond Indenture. While bearing interest at an Auction Rate, the Bonds will be issued in fully registered form without coupons in denominations of \$25,000 or any integral multiple thereof, subject to the book-entry procedures described herein.

While the Auction Rate Securities are book-entry-bonds, as described below, payment of the principal and tender price of, premium, if any, and interest on any Auction Rate Securities will be made by wire transfer to DTC, to the account of Cede & Co. The interest on the Auction Rate Securities will be payable on the Business Day immediately following each Auction Period for the Bonds (an "ARS Interest Payment Date"). In the event the Auction Rate Securities are no longer book-entry bonds, principal and interest payments on the Auction Rate Securities are to be made by check mailed on the date due by the Bond Trustee to the registered owners of such Auction Rate Securities as of the ARS Record Date (as defined below); provided, however, that if a holder or group of holders of \$1,000,000 or more aggregate outstanding principal amount of the Auction Rate Securities gives the Bond Trustee written notice of such holding accompanied by sufficient wire transfer instructions, the payments of interest on the Auction Rate Securities will be payable by wire transfer of immediately available funds on the date due. The "ARS Record Date" with respect to the Auction Rate Securities will be the second Business Day next preceding each ARS Interest Payment Date.

*Transfer and Payment.* In the event the book-entry only system is discontinued, the following provisions will apply. The Bonds may be registered as transferred by the registered owner thereof or such owner's attorney or legal representative duly authorized in writing, upon surrender thereof accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Bond Trustee, duly executed by the registered owner or by such owner's duly authorized attorney or legal representative. Any Bonds may be exchanged upon surrender thereof at the principal corporate trust office of the Bond Trustee, as bond registrar, together with an assignment duly executed by the registered owner or such owner's attorney or legal representative duly authorized in writing, in form and with guaranty of signature satisfactory to the Bond Trustee, for fully registered Bonds of the same maturity, aggregating in amount the then unpaid principal amount of the Bonds surrendered, of authorized denominations. The Bond Trustee and the Authority may charge a fee covering taxes, fees or other governmental charges required to be paid in connection with any exchange or registration of transfer of any Bond, except in the case of issuance of a Bond for the unredeemed portion of a Bond surrendered for redemption. For a description of the registration of transfer procedures while the Bonds are in the Book-Entry Only System, see "THE BONDS – Book-Entry-Only System" herein.

*Applicable ARS Rate.* So long as they are Auction Rate Securities, the Bonds will generally bear interest at the applicable rate (the "Applicable ARS Rate") established pursuant to the Auction Procedures. See Appendix D, "SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES – Description of Auction -- Auction Procedures." An "ARS Interest Period" begins on and includes an ARS Interest Payment Date and ends on but excludes the next succeeding ARS Interest Payment Date; the first ARS Interest Period for the Bonds commences on the date of original delivery of the Auction Rate Securities. The Applicable ARS Rate will not exceed the lesser of 15% per annum or the Maximum Lawful Rate. Interest on the Auction Rate Securities will be computed on the basis of a 360-day year for the actual number of days elapsed during the ARS Interest Period. In certain circumstances, however, the Auction Procedures may be canceled or suspended. If the Auction Agent fails to receive a Notice of Percentage Change following its prior receipt of a Notice of Proposed Percentage Change or an opinion of Bond Counsel authorizing an adjustment in the percentages used to determine certain rates relevant to the All-Hold Rate, the No Auction Rate, the Non-Payment Rate and the ARS Maximum Rate, the Auction Agent will cancel the

succeeding Auction for the Bonds and determine the ARS Maximum Rate in accordance with the Auction Agent Agreement and the Applicable ARS Rate for the Bonds will be the ARS Maximum Rate on the respective Auction Date for such succeeding ARS Interest Period until such conditions are satisfied. The Auction Agent also will suspend the Auction Procedures upon occurrence of (i) a default by the Borrower in the due and punctual payment of any installment of interest on the Auction Rate Securities followed by a failure of the Bond Insurer to honor its payment obligations under the Bond Insurance Policy or (ii) a default by the Borrower in the due and punctual payment of any principal of the Auction Rate Securities at stated maturity or pursuant to a mandatory redemption followed by a failure of the Bond Insurer to honor its payment obligations under the Bond Insurance Policy. The Applicable ARS Rate for each ARS Interest Period for the Auction Rate Securities commencing on or immediately after the occurrence of such default, unless such default is cured or waived within two Business Days prior to commencement of any subsequent Auction Period, will be the interest rate per annum equal to the Non-Payment Rate. The Auction Agent Agreement also requires that no further auctions be held if the ownership of the Auction Rate Securities is no longer maintained in a Book-Entry Only System. In such case, the Applicable ARS Rate will be the ARS Maximum Rate. See Appendix D, "SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES – Payments with Respect to ARS."

*Converting Interest Rate Modes and Mandatory Tender for Purchase.* The Borrower on behalf of the Authority may elect to convert the Bonds to other Interest Rate Periods effective as of an ARS Interest Payment Date. Upon such conversion, the Bonds may accrue interest based on a Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. In order to effect such conversion, the Borrower on behalf of the Authority shall provide a written direction to the Authority, the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider for the Bonds (if any), the Remarketing Agent (if any), the Auction Agent (if any) and the Broker-Dealer (if any) of its election to convert the Bonds to another Interest Rate Period. The Bond Trustee shall provide notice of such conversion to the holders of the Bonds not less than 30 days prior to the proposed effective date of such conversion. Such notice shall state, among other items, the new Interest Rate Period for the Bonds, the proposed effective date of the new Interest Rate Period and that the Bonds are subject to mandatory tender for purchase on the proposed effective date of the new Interest Rate Period. The tender price shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the date of such tender. In connection with any conversion of the Bonds, the Borrower shall have the right to rescind the election to convert the Bonds by delivering on or prior to 10:00 a.m. on the second Business Day preceding the effective date of such conversion a notice that the Borrower on behalf of the Authority elects to rescind such election. If such election is rescinded with respect to Auction Rate Securities, then such Auction Rate Securities shall continue to bear interest in the ARS Interest Period in effect immediately prior to the proposed conversion and such Auction Rate Securities shall not be subject to mandatory tender for purchase on the proposed date of the conversion. Certain other conditions to such conversion are set forth in the Bond Indenture. If such conditions are not met, then any Auction Rate Securities shall remain Auction Rate Securities and shall bear interest at the ARS Maximum Rate for the immediately ensuing ARS Interest Period; however, such Auction Rate Securities shall not be subject to mandatory tender for purchase on the proposed effective date of the conversion.

*Redemption of Auction Rate Securities.* Auction Rate Securities are subject to redemption by the Authority at the written direction of the Borrower, on any ARS Interest Payment Date, in whole or in part in any Authorized Denomination, at a redemption price equal to the principal amount thereof to be redeemed plus accrued but unpaid interest to the redemption date, without premium.

The Bonds are subject to mandatory sinking fund redemption on July 1 in each of the years 2008 to 2025, inclusive, and 2033 to 2035, inclusive, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date in the principal amount of the Bonds for such year. See "ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS" for a schedule of the principal amount of Bonds to be redeemed in each year. If any Bonds to be redeemed are subject to an ARS Interest Rate Period, if such July 1 is not an ARS Interest Payment Date, the mandatory sinking fund redemption shall occur on the ARS Interest Payment Date immediately succeeding such July 1.

The Bonds are subject to redemption in an amount derived from the net proceeds of an insurance or condemnation award, in whole or in part by the Authority at any time (upon the simultaneous prepayment of like

aggregate principal amount of the Series 2005 Note) at the written direction of the Borrower, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, in the event any Operating Assets of the Borrower shall have been damaged, taken or condemned; provided that the net proceeds of such insurance or condemnation award shall exceed \$100,000 and that the Borrower shall have determined not to use such net proceeds to rebuild, replace or repair such Operating Assets.

The Bond Trustee shall give notice of any redemption by mail, postage prepaid, at least 30 days but no more than 60 days prior to the date fixed for redemption to each holder of Bonds to be redeemed at its address shown on the registration books kept by the Bond Trustee; provided, however, that the failure to give such notice to any holder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds. In case of any redemption in part of the Bonds, the Bonds to be redeemed shall be selected by the Bond Trustee, in such manner as the Bond Trustee in its discretion may deem fair and appropriate consistent with the requirements of the Bond Indenture.

### **Book-Entry-Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC System must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirm from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized

representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practice, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority, the Borrower or the Bond Trustee; subject to any statutory or regulatory requirements as may be in effect from time to time. Payment or redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of the Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Borrower, with the consent of the Authority and the Bond Trustee, may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**THE INFORMATION PROVIDED UNDER THIS HEADING HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE BORROWER OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR ANY**

**INFORMATION PROVIDED ON DTC'S WEBSITE OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.**

For so long as the Bonds are registered in the name of DTC or its nominee or any successor securities depository or its nominee, the Authority and the Bond Trustee will recognize only DTC or its nominee or such successor securities depository or its nominee as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee or any successor Securities Depository or its nominee shall satisfy the Authority's obligations under the Bond Indenture to the extent of the payments so made.

None of the Authority, the Borrower nor the Bond Trustee shall have any responsibility or obligation with respect to:

- (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant or any successor securities depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the Bonds;
- (ii) the delivery to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any Bond, including, without limitation, any notice of redemption;
- (iii) the payment to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Bond;
- (iv) any consent given by DTC or any successor securities depository as registered owner; or
- (v) the selection by DTC or any Direct Participant or Indirect Participant by any successor depository or its participants of the beneficial ownership interests in Bonds for partial redemption.

So long as the Bonds are held in the book-entry-only system of the securities depository, the Authority and Bond Trustee may treat DTC and any successor securities depository as, and deem DTC and any successor securities depository to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation:

- (i) the payment of the principal of, premium, if any, and interest on and the purchase price of the Bonds;
- (ii) giving notices of redemption and other matters with respect to the Bonds;
- (iii) registering transfers with respect to the Bonds; and
- (iv) the selection of the beneficial ownership interests in Bonds for partial redemption.

**Revision of Book-Entry-Only System**

In the event that either (1) the Authority receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Bonds or (2) the Borrower, with the consent of the Authority and the Bond Trustee, elects to discontinue its use of DTC as a clearing agency for the Bonds, then the Authority and the Bond Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Bonds and to transfer the ownership of each of the Bonds to such person or persons, including any other

clearing agency, as the holder of such Bonds may direct in accordance with the Bond Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Bonds will be paid by the Authority or the Borrower.

## **SECURITY FOR THE BONDS**

### **Limited Obligations of Authority**

The Bonds will be special and limited revenue obligations of the Authority and, except to the extent payable from Bond proceeds or moneys derived from the investment thereof and insurance and condemnation proceeds, will be payable solely and only from and secured by the payments to be made by the Borrower under the Loan Agreement (or by the Obligated Group and each Obligated Issuer which is a member thereof under the Series 2005 Note and the Master Indenture).

**THE BONDS CONSTITUTE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND, EXCEPT TO THE EXTENT PAYABLE FROM BOND PROCEEDS OR MONEYS DERIVED FROM THE INVESTMENT THEREOF AND INSURANCE AND CONDEMNATION PROCEEDS, WILL BE PAYABLE SOLELY FROM AND SECURED BY PAYMENTS, REVENUES AND OTHER AMOUNTS DERIVED BY THE AUTHORITY FROM THE BORROWER AND OTHER MEMBERS OF THE OBLIGATED GROUP, IF ANY, PURSUANT TO THE LOAN AGREEMENT, THE SERIES 2005 NOTE AND THE MASTER INDENTURE, AS WELL AS ALL PROCEEDS OF THE TRUST ESTATE CREATED UNDER THE BOND INDENTURE, INCLUDING WITHOUT LIMITATION, ALL AMOUNTS IN ALL FUNDS (EXCEPT THE REBATE FUND). THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO ANY HOLDER THEREOF THE RIGHT TO HAVE THE AUTHORITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST OR ANY PREMIUM ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.**

### **The Loan Agreement**

Pursuant to the Loan Agreement, the Borrower agrees to make payments to the Authority in such amounts and at such times as are sufficient to pay in full, when due, the principal of, premium, if any, and interest on the Bonds.

### **The Series 2005 Note**

To secure its obligations under the Loan Agreement, the Borrower will issue to the Authority, pursuant to the Master Indenture, the Series 2005 Note in an aggregate principal amount equal to the aggregate principal amount of the Bonds. The Series 2005 Note will be assigned by the Authority to the Bond Trustee. All payments by the Borrower of the principal of, premium, if any, and interest on the Series 2005 Note will be made to the Bond Trustee and each payment will be made on or before the date when the corresponding payment is required to be made on the related Bonds. The principal of, premium, if any, and interest payments on the Series 2005 Note correspond in amount to the principal of, premium, if any, and interest on the Bonds. The Series 2005 Note will at all times be in fully registered form and will be non-transferable except as required to effect the assignment thereof to the Bond Trustee and any successor trustee. The Series 2005 Note and all other Notes (as defined in Appendix C) issued under the Master Indenture, whether issued to the Authority or other creditors, will be equally and ratably secured under the Master Indenture.

## **The Master Indenture**

*Collective Obligations.* The Master Indenture permits the Borrower (and other Obligated Issuers) to issue Additional Notes (as defined in Appendix C) and to secure all Notes on a parity basis. The Borrower has previously issued its Series 1995 Notes and Series 2002 Note as described above under the caption "INTRODUCTION - Security." Upon issuance of the Bonds, provision will be made for the retirement of the Series 1995 Notes. Upon issuance of the Bonds, the Borrower will be the only member of the Obligated Group. Additional Notes may be issued to secure Related Bonds or to evidence or secure debt owed to other creditors. Although each Obligated Issuer is the principal obligor on Notes issued on its behalf under the Master Indenture, all members of the Obligated Group are jointly and severally obligated with respect to payment of each Note issued under the Master Indenture.

*Pledge of Gross Revenues.* The Borrower and any future members of the Obligated Group have granted a security interest in their Gross Revenues, Accounts, Bank Accounts, General Intangibles, Contract Rights and all Related Rights (each as defined in Appendix C) to the Master Trustee as security for the making of payments on the Notes, including the Series 2005 Note. Except as provided below, the Borrower and any future members of the Obligated Group will not grant any mortgage or security interest in their property to the Master Trustee.

"Gross Revenues" are all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Borrower and each other Obligated Issuer and the State or any other state with respect to Medicaid; the Borrower and each other Obligated Issuer and third-party insurers of any patients of the Borrower and each other Obligated Issuer; and the Borrower and each other Obligated Issuer and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by the Borrower and each other Obligated Issuer, and all proceeds therefrom, whether cash or non-cash, and which are derived by the Borrower and each other Obligated Issuer from the conduct of all or any part of their respective operations; and all revenue and income of the Borrower and each other Obligated Issuer from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Borrower and each other Obligated Issuer from any source, but excluding only Restricted Moneys (as defined in Appendix C) of the Borrower and the other Obligated Issuers.

*Negative Pledge.* Pursuant to the Master Indenture, the Borrower and any future members of the Obligated Group, if any, have covenanted not to incur indebtedness secured by an encumbrance on or mortgage of the Property of the Borrower, including the gross revenues, unless the Bonds are equally and ratably secured with such indebtedness or unless such mortgage is a Permitted Encumbrance under the Master Indenture. As a condition to the issuance by the Bond Insurer of the Bond Insurance Policy, the Borrower will authorize, but not execute and deliver at the time of issuance of the Bonds, a mortgage on its main hospital facility (the "Mortgage"). The Borrower covenants in the Supplemental Indenture No. 8 to execute and deliver the Mortgage at such time in the future as it fails to comply with certain financial covenants. See the caption "SUMMARY OF CERTAIN PROVISIONS OF SUPPLEMENTAL MASTER INDENTURE NO. 8" in Appendix C hereto.

## **Substitution of Notes**

UNDER CERTAIN CIRCUMSTANCES DESCRIBED IN THE BOND INDENTURE, THE SERIES 2005 NOTE MAY BE EXCHANGED FOR THE OBLIGATIONS ("SUBSTITUTE NOTES") OF A DIFFERENT OBLIGATED GROUP OF WHICH THE BORROWER WOULD BE A MEMBER. THIS COULD, UNDER CERTAIN CIRCUMSTANCES, LEAD TO THE SUBSTITUTION OF DIFFERENT SECURITY IN THE FORM OF A NOTE BACKED BY AN OBLIGATED GROUP THAT IS FINANCIALLY AND OPERATIONALLY DIFFERENT THAN THE PRESENT OBLIGATED GROUP. SUCH NEW OBLIGATED GROUP COULD HAVE SUBSTANTIAL DEBT OUTSTANDING THAT WOULD RANK ON A PARITY WITH THE SUBSTITUTE NOTES. SUCH OBLIGATED GROUP MAY ALSO HAVE SUBSTANTIALLY DIFFERENT COVENANTS THAN THE COVENANTS UNDER THE MASTER INDENTURE. THE COVENANTS UNDER THE MASTER INDENTURE WOULD NO LONGER BE BINDING ON THE PRESENT OBLIGATED GROUP. SUCH EXCHANGE COULD ADVERSELY AFFECT THE MARKET PRICE FOR AND MARKETABILITY OF THE BONDS. IN ORDER TO SO EXCHANGE THE SERIES 2005 NOTE, THE OBLIGATED GROUP MUST MEET CERTAIN TESTS AND REQUIREMENTS. See "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL



DOCUMENTS (INCLUDING DEFINITIONS) - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - SUBSTITUTION OF NOTES" IN APPENDIX C hereto.

**Additional Notes**

Upon the terms and subject to the conditions provided in the Master Indenture, the Borrower may issue Additional Notes, which will be equally and ratably secured by the security interest created by the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS (INCLUDING DEFINITIONS) - SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Permitted Additional Indebtedness" in Appendix C hereto.

**The Bond Indenture**

*Assignment by Authority to the Bond Trustee.* Pursuant to the Bond Indenture, the Authority will assign to the Bond Trustee, as security for the payment of the Bonds, the following:

- (1) all right, title and interest of the Authority in and to the Loan Agreement (except the Authority's rights to indemnification and payment of administration fees and expenses), the Supplemental Master Indenture No. 8, and the Series 2005 Note, including the right to receive payments under the Loan Agreement and on the Series 2005 Note from the Borrower, and any lien securing the Series 2005 Note under the Master Indenture;
- (2) the proceeds of the Bonds and all moneys and securities on deposit from time to time in the funds established under the provisions of the Bond Indenture (except for moneys held in the Rebate Fund), including moneys, if any, paid to the Bond Trustee pursuant to the Insurance Policy; and
- (3) any other property which may from time to time be pledged, assigned or transferred to the Bond Trustee as additional security for the Bonds.

**Enforceability of Remedies; Limitations**

The Borrower's obligations under the Loan Agreement are evidenced by the Series 2005 Note, which is in turn secured under the Master Indenture. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the Bond Indenture, the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified by the Bond Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by the state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally. See "BONDHOLDERS' RISKS" herein.

**THE BOND INSURER AND THE FINANCIAL GUARANTY INSURANCE POLICY**

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York, with its principal place of business in New York City.

The claims-paying ability (also referred to as its financial strength) of CIFG NA is rated "AAA" by Fitch, "Aaa" by Moody's, and "AAA" by Standard and Poor's, the highest rating assigned by each such Rating Agency. Each rating of CIFG NA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of CIFG NA and its ability to pay claims on its policies of insurance based upon, among other factors, the adequacy of the net worth maintenance and reinsurance agreements provided by CIFG described below under "—Capitalization". Any further explanation as to the significance of the above

ratings may be obtained only from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the Rating Agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. CIFG NA does not guarantee the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

CIFG NA is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in over 40 jurisdictions. CIFG NA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that each such insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each such insurer, and limits the size of individual transactions ("single risks") and the volume of transactions ("aggregate risks") that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as CIFG NA regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings. CIFG NA is required to file quarterly and annual statutory financial statements with the New York State Insurance Department ("NYSID"), and is subject to statutory restrictions concerning the types and quality of its investments and the filing and use of policy forms and premium rates. Additionally, CIFG NA's accounts and operations are subject to periodic examination by the NYSID.

THE INSURANCE PROVIDED BY THE FINANCIAL GUARANTY INSURANCE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED BY THE INSURANCE LAWS OF THE STATE OF NEW YORK.

#### Capitalization

In addition to its capital and surplus as set forth below, CIFG NA is supported by a net worth maintenance agreement from its indirect parent, CIFG Guaranty, a French reinsurance corporation ("CIFG"). The net worth maintenance agreement provides that CIFG will maintain CIFG NA's U.S. statutory capital and surplus at no less than \$80 million. In addition, through a facultative reinsurance agreement, CIFG NA may cede up to 90% of its exposure on each transaction to CIFG; however, the facultative reinsurance agreement does not require that CIFG reinsure its exposure under any transaction. CIFG's claims paying ability is rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, the highest rating assigned by each such rating agency. *Notwithstanding these net worth maintenance and reinsurance agreements, the holders of the Bonds will have direct recourse against CIFG NA only, and neither CIFG nor any other affiliate of CIFG NA will be directly liable to the holders of the Bonds.*

The following table sets forth the capitalization of CIFG NA as of March 31, 2005, on the basis of accounting principles prescribed or permitted by the NYSID (in thousands):

Common capital stock	\$ 19,700
Gross paid in and contributed surplus	120,925
Unassigned funds (retained deficit)	<u>(29,160)</u>
Surplus as regards policyholders	<u>\$ 111,465</u>

There has been no material adverse change in the capitalization of CIFG NA from March 31, 2005 to the date of this Official Statement.

Audited financial statements of CIFG NA as of December 31, 2004, prepared in accordance with statutory accounting principles applicable to insurance companies, may be obtained by writing to CIFG NA at 825 Third Avenue, 6th Floor, New York, New York 10022, Attention: Finance Department. The toll-free telephone number of CIFG NA is (866) CIFG 212.

The Financial Guaranty Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable

ratings or other causes. CFIG NA makes no representation regarding the Bonds or the advisability of investing in the Bonds. CFIG NA makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that CFIG NA has provided to the Issuer the information presented under this caption for inclusion in this Official Statement.

## THE PROJECT AND THE PLAN OF FINANCE

### The Project

The Borrower plans to finance routine capital expenditures at its hospital facilities, including a helipad, ambulance garage and construction of the acute rehabilitation unit (the "Project").

### The Plan of Finance

The Authority will loan the proceeds from the sale of the Bonds to the Borrower which will apply the moneys (i) to pay a portion of the cost of acquiring, constructing and equipping the Project; (ii) to refund the Refunded Bonds; (iii) to pay certain expenses incurred in connection with the issuance of the Bonds; (iv) and to obtain credit enhancement for the Bonds.

## ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds, the expenses incurred in connection with the financing of the Project, the refunding of the Refunded Bonds, obtaining credit enhancement for the Bonds and paying the costs of the issuance of the Bonds, are *estimated* as follows:

#### Sources of Funds:

Par Amount of Bonds	<u>\$ 24,000,000</u>
Total Sources of Funds	<u>\$ 24,000,000</u>

#### Uses of Funds (a) :

Deposit to Construction Account (b)	\$ 6,490,000
Deposit for the Refunded Bonds	16,555,000
Issuance Costs (c)	390,000
Premium for the Bond Insurance Policy	<u>565,000</u>
Total Uses of Funds	<u>\$ 24,000,000</u>

(a) Uses of funds have been rounded to the nearest \$5,000.

(b) Includes amounts to reimburse the Borrower for expenditures already undertaken. This deposit, together with other moneys of the Borrower and interest earnings on the Construction Account of the Project Fund are expected to be sufficient to pay the costs of the Project.

(c) Includes legal fees, accountants' fees, underwriters' discount, printing costs and other costs associated with the issuance of the Bonds.

## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Bond Year ending July 1, the amounts required in each Bond Year for the payment of principal at maturity or by sinking fund redemption and the payment of interest on the Bonds (at the assumed rate noted below) and the Prior Bonds.

<b>Year Ending July 1</b>	<b>Bonds</b>		<b>Total Debt Service (b)</b>	<b>Total Debt Service Prior Bonds</b>	<b>Combined Total Debt Debt Service (c)</b>
	<b>Principal Amount (a)</b>	<b>Interest (b)</b>			
2006	\$ -0-	\$807,333	\$ 807,333	\$1,546,745	\$2,354,078
2007	-0-	851,667	851,667	1,546,745	2,398,412
2008	700,000	854,000	1,554,000	1,911,745	3,465,745
2009	725,000	826,826	1,551,826	1,907,145	3,458,971
2010	725,000	801,099	1,526,099	1,912,145	3,438,244
2011	775,000	775,371	1,550,371	1,915,358	3,465,729
2012	800,000	749,919	1,549,919	1,907,513	3,457,431
2013	825,000	719,481	1,544,481	1,913,813	3,458,293
2014	850,000	690,205	1,540,205	1,913,563	3,453,767
2015	875,000	660,042	1,535,042	1,912,125	3,447,167
2016	925,000	630,715	1,555,715	1,909,281	3,464,996
2017	950,000	596,167	1,546,167	1,915,031	3,461,198
2018	1,000,000	562,455	1,562,455	1,913,813	3,476,267
2019	1,025,000	526,969	1,551,969	1,910,906	3,462,875
2020	1,075,000	491,940	1,566,940	1,911,313	3,478,252
2021	1,100,000	452,448	1,552,448	1,907,188	3,459,635
2022	1,150,000	413,413	1,563,413	1,916,488	3,479,901
2023	1,200,000	372,604	1,572,604	1,908,425	3,481,029
2024	1,225,000	330,925	1,555,925	1,908,788	3,464,712
2025	1,275,000	286,550	1,561,550	1,912,050	3,473,600
2026	-0-	241,306	241,306	3,412,950	3,654,256
2027	-0-	241,306	241,306	3,412,738	3,654,043
2028	-0-	241,967	241,967	3,415,963	3,657,929
2029	-0-	241,306	241,306	3,417,100	3,658,406
2038	-0-	241,306	241,306	3,410,888	3,652,193
2031	-0-	241,306	241,306	3,417,325	3,658,631
2032	-0-	241,967	241,967	3,415,363	3,657,329
2033	2,175,000	241,306	2,416,306	-0-	2,416,306
2034	2,275,000	164,123	2,439,123	-0-	2,439,123
2035	<u>2,350,000</u>	<u>83,392</u>	<u>2,433,392</u>	<u>-0-</u>	<u>2,433,392</u>
TOTALS	\$24,000,000	\$14,579,409	\$38,579,409	\$61,402,501	\$99,981,911

(a) Principal amounts shown in the years 2008 to 2025 and 2033 to 2035, inclusive, represent amounts to be redeemed by mandatory sinking fund redemption.

(b) Interest on the Bonds has been calculated at the assumed rate of 3.50%. This calculation does not conform to the method prescribed for calculating debt service to determine compliance with various financial tests under the Master Indenture.

(c) Total debt service as to the Bonds includes interest assumed as described in footnote (b) above.

## **BONDHOLDERS' RISKS**

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. **Risks discussed in terms of their possible effect on the Borrower may also affect any future member of the Obligated Group.** The discussion of risk factors is not meant to be exhaustive.

The ability of the Borrower, and any future member of the Obligated Group, to realize revenues in amounts sufficient to pay debt service on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Borrower in amounts sufficient to pay debt service when due on the Bonds. The risk factors discussed below should be considered in evaluating the Borrower's ability to make payments due under the Bond Indenture, the Loan Agreement and the Series 2005 Note in amounts sufficient to provide for payment of the principal of and interest on the Bonds.

### **Risks Pertaining to the Substitution of Series 2005 Note**

Under circumstances described in the Bond Indenture, the Series 2005 Note may be exchanged for the obligations of a different obligated group, of which the Borrower would be a member. This could, under certain circumstances, lead to the substitution of different security in the form of a note backed by an obligated group that is financially and operationally different than the then current members of the Obligated Group. Such new Obligated Group could have substantial debt outstanding that would rank on a parity with the substitute notes. Such exchange could adversely affect the market price for and marketability of the Bonds. In order to so exchange the Series 2005 Note, the Obligated Group must meet certain tests and requirements, as described in APPENDIX C hereto under the caption, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Substitution of Obligations."

### **Additional Debt**

The Master Indenture permits the issuance of additional Notes on a parity with the Series 2005 Note and also permits incurrence of other Additional Indebtedness by the Obligated Group. See the information in APPENDIX C hereto under the caption "SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE—Other Covenants of the Obligated Group," and "—Permitted Additional Indebtedness." See "SECURITY FOR THE BONDS—The Master Indenture" above.

### **Risks Pertaining to the Hospital and Health Care Industry**

The Borrower is a health care provider which derives significant portions of its revenues from Medicare, Medicaid and other third party payor programs. The Borrower and any future members of the Obligated Group are subject to governmental regulations applicable to health care providers and the receipt of future revenue by the Borrower and any future members of the Obligated Group are subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. The effect on the Borrower and any future members of the Obligated Group of recently enacted laws and regulations, of future changes in federal and state laws and policies and changes in third party payor policies cannot be fully or accurately determined at this time.

In addition, the receipt of future revenues by the Borrower and any members of the Obligated Group are subject to changes in future economic and other conditions, including, without limitation, increased competition, inflation, the emergence of specialty hospitals, demand for hospital services, the capability of management of the Borrower and any future members of the Obligated Group, the ability of the Borrower and any future members of the Obligated Group to provide the services required or requested by patients, physicians' confidence in the Borrower and any future members of the Obligated Group, employee relations and unionization, malpractice claims

and other litigation, demographic changes and other factors. Such factors may adversely affect revenues and, consequently, payment of the principal of, premium, if any, and interest on the Bonds.

The following discussion of risk factors is not intended to be exhaustive, and should be read in conjunction with all other parts of this Official Statement.

### **Federal and State Regulation and Legislation**

*General.* A significant portion of the revenues of the Borrower is derived from Medicare, Medicaid, Blue Cross Blue Shield and other third-party payor programs. Significant changes have been made, and further changes may be made in certain parts of these programs that affect or could affect the reimbursement rates for health services. These changes could have a material adverse effect upon the Borrower's operations and financial results. Bills have been, and other bills may be, introduced in the Congress of the United States that, if enacted, could have a material adverse effect upon the Borrower's operations and financial results by, for example, decreasing reimbursement by third-party payors, such as Medicare or Medicaid, or limiting the ability of the Borrower to provide services or expand services provided to patients.

*Medicare and Medicaid Programs.* Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, are disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers certain physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the state involved.

Health care providers have been and will continue to be affected significantly by recent changes in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose and result of these diverse and complex changes have been to create a reduction in the reimbursement rates for health care costs, particularly costs paid to health care providers under the Medicare and the Medicaid programs. Some changes have been implemented and some will be implemented in the future. The following is a summary of the Medicare and the Medicaid programs and certain related risk factors.

#### Medicare

*General.* The facilities operated by the Borrower are certified as providers for Medicare services and participate in the Medicare program. As of June 30, 2004, approximately 45% of the gross patient revenues of the Borrower were derived from Medicare. As a consequence, any adverse change in Medicare reimbursement could have a material adverse effect upon the Borrower's operations and financial results.

Laws and regulations governing the Medicare and the Medicaid programs are extremely complex and subject to interpretation. The Borrower will have a significant dependence on Medicare as a source of revenue, and changes in the Medicare program are likely to have a material effect on the Borrower. The requirements for Medicare certification and participation are subject to change, and in order to remain qualified for the program, it may be necessary for the Borrower to take action and incur costs from time to time to comply with new requirements for their facilities, equipment, personnel and services. The Borrower intends to continue to participate in the Medicare program.

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs, such as depreciation and interest expense, are also paid on the basis of "reasonable cost," subject to certain limits.

Inpatient Operating Costs. Acute care hospitals are paid a specified amount towards their operating costs based upon the Diagnosis Related Group ("DRG") to which each Medicare patient is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services, formerly known as the Health Care Finance Administration or HCFA ("CMS"), and is not directly related to a hospital's actual costs for a given procedure. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of a patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital.

DRG payments are adjusted annually based upon the hospital "market basket" index, or the cost of providing health care services. Each year (other than 2001) since 1983, Congress has modified the increases and approved substantially less than the increase in the "market basket" index. There is no assurance that future increases in the DRG payments will keep pace with the increases in the cost of providing hospital services. In fact, pursuant to the Balanced Budget Act of 1997 (the "BBA"), the DRG payment increase for fiscal year 1999 was the market basket percentage increase minus 1.9 (-1.9)% for all hospitals in all areas. For fiscal year 2000, it was market basket minus 1.8 (-1.8)%. The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA"), which was signed into law in December 2000, provides certain givebacks to hospitals to alleviate the effect of the BBA. Specifically, from October 1, 2000, through March 31, 2001, the payment update was the market basket index minus 1.1 (-1.1)%, but changed to market basket index plus 1.1% for the remainder of federal fiscal year 2001. The payment update for federal fiscal year 2002 and 2003 was the market basket index minus 0.55 (-0.55%). The payment update for federal fiscal year 2004 and for subsequent years is the market basket index for prospective payment hospitals.

The Secretary of the United States Department of Health and Human Services ("HHS") is required to review annually the DRG categories to take into account any new procedures, to reclassify DRGs and to recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. There is no assurance that the Borrower will be paid amounts that will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget-neutral basis.

Certain hospitals and inpatient psychiatric and rehabilitation units are exempted from PPS and are reimbursed on a "reasonable cost" basis, subject to the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") rate of increase ceiling on inpatient costs per discharge. Under this system, if an exempt hospital or distinct unit of a hospital is operated at costs less than the established TEFRA rate, the hospital is paid under the BBA an incentive payment equal to the amount of such operating costs plus 15% of the amount by which the target amount exceeds the amount of the operating costs, or 2% of the target amount, whichever is less. The BBA also provides for the gradual elimination of these "cost based" reimbursement systems. In accordance with a proposed rule published on November 3, 2000, inpatient rehabilitation services began to be converted to a prospective payment system ("PPS") during a two-year transition period commencing with cost reporting periods beginning on or after April 1, 2000. Pursuant to the Omnibus Budget Bill, however, a rehabilitation facility may elect to be paid entirely under the PPS and avoid the transition period. Inpatient psychiatric services were converted to a PPS for cost reporting periods beginning on or after October 1, 2002. The Borrower is applying for an exemption from PPS for its inpatient rehabilitation services.

Capital Costs. Effective for cost reporting periods beginning on or after October 1, 2001, hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Capital costs, therefore, are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs), subject to certain hospital-specific adjustments (such as for disproportionate share, indirect medical education and outlier cases). Prior to October 1, 2001, hospitals were paid on the basis of a blend of hospital-specific costs and the standard federal rate. A hospital may qualify for "hold harmless" payments for its capital costs under special rules for capital projects undertaken prior to 1991. The BBA reduced the federal rate by 17.78% for all discharges after October 1, 1997, and before October 1, 2002. This reduction applies to the federal rate before the application of the adjustment factors for outliers, exceptions and

budget neutrality. The BBA also rebased capital payment rates in fiscal year 1998 using fiscal year 1995 rates, and further reduced the capital payment rate by 2.1%. The BBA also reduced capital payments for PPS-exempt units to 85% of reasonable costs.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Borrower allocable to Medicare patient stays or to provide adequate flexibility in meeting the Borrower's future capital needs.

Funded Depreciation Accounts. Hospitals may maintain "funded depreciation accounts," which consists of board-designated funds set aside for the replacement of depreciated assets or for other capital purposes. The Medicare program imposes certain requirements on the use and maintenance of these funded depreciation accounts. Failure to use and maintain these accounts in accordance with the Medicare requirements may result in disallowances of reimbursement for certain interest expenses. The Borrower may from time to time make use of money in funded depreciation accounts for a variety of purposes. Because the related regulations are numerous and complex, there can be no assurance that the Medicare program will not, as a consequence of these uses, disallow interest expense in amounts that could be material to the operations and financial condition of the Borrower.

Disproportionate Share Adjustments Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital ("DSH") adjustment. A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital's location, and its disproportionate low-income patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. The BBA, as further amended by the BIPA, mandated reductions in DSH payments of 1% in fiscal year 1998, 2% in fiscal year 1999, 3% in fiscal year 2000, 2% in fiscal year 2001, and 3% in fiscal year 2002, with no adjustment in fiscal year 2003 and each year thereafter. The Omnibus Budget Bill also included additional DSH payments for certain providers in federal fiscal year 2001. The Secretary of HHS is required under the BBA to develop a new formula for calculating DSH payments. There can be no assurance that DSH payments will not be decreased or eliminated in the future. Because the Borrower routinely serves a disproportionate share of low-income patients, and such payments may account for a significant portion of the Borrower's gross revenues, such changes could have a material adverse effect upon the Borrower's operations and financial results.

Outpatient Services. Section 1833(t) of the Social Security Act provides for a PPS method of reimbursement for hospital outpatient services, including hospital operating and capital costs. CMS published a final rule implementing this section on April 7, 2000. The effective date of this rule was August 1, 2000. Several Medicare Part B services are specifically excluded from this rule, including certain physician and non-physician, ambulance, physical and occupational therapy, speech language pathology and diagnostic laboratory services.

Under the hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from calendar year 1996 and data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the hospital outpatient PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Borrower allocable to Medicare patient care.

Physician Services. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The BBA established a new limit on the growth of Medicare payments for physician services. The "Sustainable Growth Rate" ("SGR") replaces the "Volume Performance Standard" ("VPS"). The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "MMA") amended the statutes to require the Secretary to evaluate the SGR. The SGR system was intended to control the volume of physician services and hence total expenditures for physician services by setting the update (change in unit payment for the year) for physician services. SGR is based on



changes in the number of beneficiaries in the Medicare fee-for-service program, input prices, law and regulation, and gross domestic product ("GDP"). The GDP, the measure of goods and services produced in the United States, is used as a benchmark of how much growth in volume society can afford. The SGR compares actual spending to target spending. The SGR formula has produced updates that in some years have been too high and in others too low. Consistently, the Medicare Payment Advisory Commission ("MedPAC") has raised concerns about the SGR when it has set updates both above and below the change in input prices. The current projection is that annual updates of negative five percent will occur for seven consecutive years. These projections make legislative alternatives to SGR very expensive.

Skilled Nursing Care Services. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government recently implemented a PPS for Medicare reimbursement to shift more of the financial risk of the cost of long-term care from the federal government to the provider. The prior system was a retrospective cost-based system.

The PPS is based upon historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The PPS applies to cost report periods beginning on or after July 1, 1998. For the first three years of implementation (referred to as the "Transition Period"), the prospective payment was a blend of a "facility-specific per diem rate" and an "adjusted federal per diem rate." Under the BIPA, a facility could elect immediate transition to the federal rate, effective for cost reporting periods beginning October 1, 2000.

In addition to the PPS, the BBA enacted consolidated billing for certain Medicare Part B services. Under consolidated billing, the Part B payment will be made to the facility whether the item or service was furnished by the facility or by others under arrangement. The services excluded from the consolidated billing requirement include physician services, physician services provided by a physician's assistant, a nurse practitioner or certified nurse specialist, nurse-midwife services, certain dialysis supplies, erythropoietin for dialysis patients and transportation costs for electrocardiogram equipment. Effective October 1, 2001, consolidated billing requirements are limited to Part A services and Part B therapy services furnished to residents in Part A-covered stays.

Home Health Care Services. Historically, Medicare reimbursed home health agencies for both operating and capital expenses incurred in providing each covered home health service on a reasonable cost basis, subject to certain limits. The BBA, however, required the Secretary of HHS to develop a prospective payment system for all home health services ("Home Health PPS"). On July 3, 2000, CMS published the final rule, effective October 1, 2000, implementing Home Health PPS. Under the rule, Medicare pays home health agencies for 60-day episodes of care and reimburses agencies at higher rates for beneficiaries with greater needs. Home Health PPS uses national payment rates that range from about \$1,100 to \$5,900, depending upon the intensity of care required by each beneficiary, adjusted to reflect area wage differences. Medicare also pays an agency 60% of the initial episode payment when the agency accepts new Medicare patients as part of a streamlined approval process. Under the rule, Medicare pays home health agencies: (1) for an unlimited number of medically necessary episodes of care; (2) at a higher rate to care for those with greater needs; payment rates are based upon relevant data from patient assessments conducted by clinicians (who do not have to be physicians), as already required for all Medicare-participating home health agencies; (3) based upon verbal orders on the initial billing; and (4) other suppliers separately for medically necessary durable medical equipment provided under the home health plan of care (in the Balanced Budget Refinement Act of 1999 ("BBRA"), Congress eliminated an earlier law that would have required agencies to bill for this equipment, even if outside suppliers provided it).

Ambulatory Surgical Center Services. Medicare pays for ambulatory surgical center ("ASC") services on the basis of prospectively determined rates. These rates are updated annually by the consumer price index ("CPI"). The BBA set the updates for fiscal year 1998 through fiscal year 2001 at the increase in the CPI minus 2%, but not below zero. The BBRA requires phasing-in over three years new ASC rates based upon pre-1999 survey data. Pursuant to the BIPA, the HHS Secretary could not implement the revised prospective payment system for ASCs before January 1, 2002. The MMA revised the Secretary's guidelines for determining ASC payments. Effective April 1, 2004, the rates were updated ascending to the CPI-U (All Urban Consumers US City Average) estimated as of March 31, 2003, minus 3.0 percentage points. In the last fiscal quarter of 2005 and the calendar years 2006 through 2009, the update will be 0%. The Secretary will then revise the payment system for ASC surgical services.

The Secretary is required to implement the changes on or after January 1, 2006, and not later than January 1, 2008. In the MMA, Congress instructed CMS to prohibit physician-investor referrals to specialty hospitals for a period of 18 months, ending June 8, 2005, unless the hospitals were already under development as of November 18, 2003. During the moratorium, MedPAC and HHS conducted separate studies, with MedPAC focusing on payment issues raised by specialty hospitals, and HHS focusing on referral patterns, quality of care, and impact of the provision on uncompensated care. MedPAC submitted its report and recommendations on March 8, 2005 and HHS submitted its report and recommendations on May 12, 2005. In its May 12, 2005 report, CMS outlined four recommendations concerning specialty hospitals. Specifically, CMS recommended redefining payment rates for ASC services. Payment reforms are expected by January 2008.

Graduate Medical Education. Medicare reimburses teaching hospitals for the direct and indirect costs of their approved graduate medical education ("GME") programs. Medicare reimburses direct GME costs, which include resident salaries, fringe benefits and physician compensation costs for teaching activities, based upon the hospital's "cost per resident," as determined in the hospital's base year (and as defined in the regulations). Medicare pays hospitals an additional amount for indirect GME costs, which include costs attributable to increased diagnostic testing and higher staffing ratios. The BBA provides for reductions in payments for both direct and indirect GME payments.

The MMA states that the geographically adjusted national average will not be updated from fiscal year 2004 through fiscal year 2013 for hospitals with resident amounts above 140%.

Provider-Based Standards. CMS issued in its hospital outpatient PPS rule, published April 2000, specific standards related to whether an entity qualifies as "provider-based" rather than "freestanding." The new standards make it more difficult to qualify as "provider-based" and are aimed at stemming the proliferation of entities characterized as "provider-based." Those standards are applicable for provider cost reporting periods beginning on or after January 10, 2001. The Omnibus Budget Bill further restricts the application of those rules for certain entities. These standards may lead to the reclassification of entities now characterized as "provider-based" to "freestanding." Such a reclassification may adversely affect the entity's reimbursement under the Medicare program. Management believes the new standards have not resulted in any material adverse effect upon the Borrower's operations and financial results.

Medicare Advantage (formerly Medicare+Choice). Part C of the Social Security Act established under the BBA allows Medicare beneficiaries (other than those suffering from end stage renal disease) to obtain Medicare coverage under the original fee-for-service Medicare program (paid under Medicare Parts A and B), or under a Medicare+Choice plan. The MMA redesigned the Medicare+Choice program, and renamed it "Medicare Advantage." A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO, as defined herein), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("MSA") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a capitated monthly payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Borrower's hospitals must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (that is, that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

Payments for direct and indirect GME are "carved out" of the payments to Medicare Advantage plans for five years; during that time an additional payment will be made to hospitals for direct GME and for indirect medical education costs with respect to Medicare managed care enrollees for cost reporting periods beginning on or after January 1, 1998. DSH payments, however, will not be carved out of the Medicare Advantage plan payment.

Several Medicare Advantage plans have been abandoned in other markets and such programs nationally have enjoyed only limited success. There can be no assurance that rates negotiated for the treatment of Medicare

Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Borrower's hospitals.

Beginning January 1, 2004, the payment rule for beneficiaries in a short-term general hospital at the time they either elect to enroll in or to terminate their enrollment in a Medicare Advantage plan, is extended to a beneficiary in a rehabilitation hospital, a distinct-part rehabilitation unit, or a long-term care hospital. For beneficiaries leaving their Medicare Advantage plan while receiving these inpatient hospital services, this provision expands the rule that disallows payment for such services under fee-for-service payments for inpatient hospitals. Under the expansion, payments are prohibited from any type of payment provision under Medicare for inpatient services, for the type of facility, hospital, or unit involved.

Medicare Audits; Enforcement Actions. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payments in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the Federal False Claims Act or other federal statutes, subjecting the Borrower or its hospitals to civil or criminal sanctions. Management of the Borrower is not aware of any situation in which a material Medicare payment is being withheld from the Borrower.

There is an expanding and increasingly complex body of laws, regulations and policies relating to Medicare that is not directly related to Medicare payments. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducement of business or referrals, all of which carry potentially significant penalties for noncompliance.

#### Medicaid

General. Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. It covers approximately 36 million people, including children, the aged, blind, disabled, and individuals who are eligible to receive federally assisted income maintenance payments. Pursuant to broad federal guidelines, the states and the United States territories (Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Mariana Islands) each (1) establish their own eligibility standards; (2) determine the type, amount, duration, and scope of services; (3) set the payment rates for services; and (4) administer their own programs. As an alternative to Medicaid, some states operate under a waiver of some basic Medicaid requirements.

Through the Medicaid program the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. The BBA added language to the Social Security Act that permits states to restrict choice of insurer by offering a choice between at least two managed care organizations or primary care case managers. CMS approval of all managed care organization contracts under the BBA is still required for these programs before federal financial participation and payments may be made under such contracts. In addition to existing requirements, these contracts are subject to new provisions contained in the BBA, including increased beneficiary protections, quality assurance standards, and timely payment requirements.

Under the now-repealed Boren Amendment, a state plan for medical assistance was required to provide for payment of inpatient hospital or nursing facility services through the use of rates that were reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers in order to provide care and services in conformity with applicable state and federal laws and regulations and quality and safety standards.

In 1997, the BBA repealed the Boren requirements and replaced them with a requirement that states implement a public process when changes in payment rates or methodologies are proposed. The BBA allows for cuts in reimbursement to Medicaid health care providers of \$1.25 to 1.5 billion over five years. The public process requirement applies to rates established on or after the October 1, 1997, effective date.

Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to providers for payment of services rendered to Medicaid beneficiaries. Currently, Medicaid nursing facility payments are generally made using one of three payment systems (that is, cost based, per diem or case mix). There is a greater use of prospective payment systems (per diem or case mix) than cost-based systems for nursing facility services. In addition, Medicaid inpatient hospital payments are generally made under a DRG prospective payment Borrower on a per discharge basis. Although the payment systems can be categorized in general terms, the specific methodology varies from state to state.

As of June 30, 2004, Medicaid patients represented approximately 13% of the gross patient charges for the Borrower. Certain aspects of the Indiana Medicaid program are provided below.

Indiana Medicaid Program. Since a portion of the Medicaid program's costs in Indiana are paid by the State, the absolute level of Medicaid revenues paid to the Borrower, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to hospitals, changes in eligibility requirements for Medicaid recipients and delays of payments due to hospitals. Any such action taken by the State could have a material adverse effect upon the Borrower's operations and financial results.

Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals using a DRG system that bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs, as determined under Medicare cost reimbursement principles, and limited such reimbursement by allowing increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Effective March 1, 1994, the Indiana Medicaid Program adopted a rule establishing an outpatient payment system that reimburses hospitals based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based upon an aggregate "cost-to-charge" ratio, with no year-end costs settlement. Consequently, no assurance can be given that Medicaid payments received or to be received by the Borrower will be sufficient to cover costs for inpatient and outpatient services, debt service obligations or other expenses otherwise eligible for reimbursement.

Certain Indiana hospitals that serve a disproportionate share of Medicaid and low-income patients may be eligible to receive "disproportionate share payment adjustments" or "significant disproportionate share payment adjustments" and may qualify for additional enhanced disproportionate share payments, as well as indigent care payments. The disproportionate share adjustment and significant disproportionate share adjustment are percentage add-ons to the regular hospital reimbursements based upon each hospital's Medicaid and low-income patient utilization. The enhanced disproportionate share adjustment provides additional funds to eligible hospitals based upon their Medicaid discharges and patient days. Indigent care payments provide funds for the treatment of eligible individuals based upon each inpatient day.

#### State Laws and Regulations

States are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and to oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. A number of states, for example, recently have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Borrower could be subject to a variety of state health care laws and regulations affecting both managed care organizations and health care providers. In addition, the Borrower could be subject to state laws and regulations prohibiting, restricting or otherwise governing preferred provider organizations, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine;" selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Borrower chooses to engage in transactions subject to such laws, or is considered by a state in which it operates to be engaging in such transactions, the Borrower may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs and risks upon the Borrower.

#### Proposed and Potential Federal and State Legislation

The Borrower is subject to a wide variety of federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare and Medicaid programs and other third-party payors, and actions by, among others, the Department of Health and Human Services, the Internal Revenue Service, the Office of the Inspector General, the National Labor Relations Board, the American Osteopathic Association's Bureau of Healthcare Facilities Accreditation, and other federal, state and local governmental agencies. There can be no assurance that such agencies and legislative bodies may not make regulatory or legislative policy changes that could produce adverse effects upon the ability of the Borrower to generate revenues or upon the utilization of its health facilities.

Wide variations of bills and regulations proposing to regulate, control or alter the method of financing healthcare costs are often proposed and introduced in Congress, state legislatures and regulatory agencies. Legislation or regulatory actions have been enacted, proposed or discussed which would, among other things:

- Condition the use of tax-exempt financing and the receipt of certain Medicare funding on hospital acceptance of Medicaid patients;
- Condition tax exemption on furnishing a full-time emergency room and deny tax exemption for any period of time during which a hospital's Medicare provider agreement is terminated or suspended due to a violation of the emergency medical screening and transfer requirements;
- Condition tax exemption on provision of certain levels of charity care;
- Set new standards for medical staff peer review, potentially increasing hospital exposure to litigation and liability regarding medical staff disputes;
- Prohibit many hospital-physician joint business ventures that are typical of the healthcare industry, and limit the permissibility of many other hospital-physician employment, contractual and business relationships;
- Effectively reintroduce a new federally mandated health planning process through which capital improvements would require more extensive government approval;
- Prohibit patient referral arrangements for items or services between physicians and providers in which referring physicians have certain financial interests;
- Increase the probability of labor union organization and activity in the healthcare industry;

- Restrict rate increases by private hospitals;
- Shift funding for Medicaid to block grants to the states; and
- Impose provider taxes on hospitals at the federal level or in one or more states.

This list is not comprehensive, and there could be new proposals or regulatory approaches introduced. Because of the many possible financial effects that could result from enactment of any bills or regulatory actions proposing to regulate the healthcare industry, it is not possible to predict the effect on the Borrower's operations or financial results of such bills or regulatory actions.

#### Federal Medicare/Medicaid Anti Fraud and Abuse Laws

The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (also referred to as the "Anti-Kickback Law") prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration in order to induce business for which reimbursement is provided under the Medicare, Medicaid and other federal health care programs, including any program or plan funded in whole or in part by the federal government (except the federal employee health benefit program). The scope of prohibited payments under the Anti-Kickback Law is so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by officials of the HHS Office of Inspector General ("OIG")) that they may create liability in connection with a wide variety of business transactions and other hospital-physician relations that have been traditional or commonplace within the health care industry including the Borrower. Limited statutory exceptions and "safe harbor" regulations define a narrow scope of activities that will be exempted from prosecution or other enforcement action. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties.

Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to achieve substantial compliance with the Anti-Kickback Law. The failure of an arrangement to meet a safe harbor's requirements does not mean that the arrangement violates the Anti-Kickback Law. Such an arrangement may be subject to closer scrutiny than an arrangement that complies with a safe harbor.

Violations of the Medicare anti-fraud and abuse laws may result in civil and criminal penalties. Civil penalties for violations of the anti-fraud provisions include temporary or permanent exclusion from the Medicare and the Medicaid programs (which accounts for a significant portion of revenue and cash flow of most hospitals, including the Borrower). In addition to the civil monetary penalties under the Anti-Kickback Law, the BBA created a new civil monetary penalty for violations of the Anti-Kickback Law for cases in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations result in damages of three times the remuneration involved as well as a penalty of \$50,000 per violation.

If determined adversely to the Borrower, any enforcement action could have a material adverse effect upon the Borrower's operations and financial results. These penalties may be applied to many situations in which hospitals and physicians conduct joint business activities, physician recruiting and retention programs, various forms of hospital assistance to medical practices or the physician contracting entities, physician referral services, hospital physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Borrower will likely conduct many activities of these general types or similar activities, which may pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the HHS Office of Inspector General, which is charged with enforcement.

Hospitals often engage in programs that waive certain Medicare coinsurance or deductible amounts. Many such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The extent to which challenges or prosecutions of hospitals

involved in these programs may be initiated is uncertain, as is the ultimate outcome. If an agency or court were to conclude that such waivers violated applicable laws or regulations and the Borrower were found to engage in such programs, there is a possibility that the Borrower could be excluded from participation in the Medicare and the Medicaid programs; be assessed fines and penalties, which could be substantial; and that Medicare payments might be withheld from the Borrower.

Medicare also requires that certain financial information be reported on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. These requirements are numerous, technical and complex and there can be no assurance that the Borrower may not incur such penalties in the future. With respect to certain types of classifications of information, the False Claims Act and other similar laws may be violated merely by reason of inaccurate or incomplete reports if it is determined that the entity submitting such claims or reports knew or should have known that such reports were incorrect. As a consequence, errors or omissions made in the ordinary course of business may result in liability. New billing systems, new medical procedures and procedures for which there is not clear guidance from CMS or other regulatory authorities may all result in liability under federal false claim prohibitions, including the False Claims Act and other similar laws. These penalties may have a material adverse effect upon the Borrower's operations and financial results, and could include criminal or civil liability for making false claims and exclusion from participation in the Medicare program.

The False Claims Act provides that a private individual may bring a civil action on behalf of the United States government. These actions are referred to as *Qui Tam* actions. By initiating a *Qui Tam* action, an individual could sue a hospital on behalf of the U.S. government if the individual believes that the hospital has committed fraud. If the government proceeds with an action brought by the individual, then the individual could receive as much as 25% of any money recovered. Future *Qui Tam* actions could be brought against the Borrower.

#### "Self-Referral" Prohibitions

The Omnibus Budget Reconciliation Act of 1993 (the "1993 Budget Act") expanded the scope of provisions originally enacted in 1989 (commonly referred to as the "Stark Law"). The 1993 Budget Act specifically prohibits any physician having a "financial relationship" with an entity from making a referral to that entity, and prohibits the entity from billing the Medicare (or the Medicaid) program for the furnishing of certain "designated health services" for which payment otherwise would be made under the Medicare or the Medicaid programs (unless that relationship meets an exception). Violations may result in exclusion from the Medicare and the Medicaid programs, denial of payment, refund of payments received or fines of up to \$15,000 per service or \$100,000 per financial relationship. The Borrower's hospitals have various relationships with physicians that may be characterized as "financial relationships" under the Stark Law.

The CMS has been in the process of modifying the "whole hospital" exception to the Stark Law. The "whole hospital" exception to the Stark Law provides that a physician may own or invest in a hospital as long as the physician ownership is in the hospital itself (rather than a subdivision of the hospital) and the physician is authorized to perform services at the hospital. CMS has stated that the purpose of the rule would be to revise the Stark regulations to specify that, for purposes of the physician self-referral prohibition, certain physician ownership or investment interests in specialty hospitals would not qualify for the "whole hospital" exception. Recently, the MMA established an 18-month moratorium on physician ownership of or investment in certain specialty hospitals. The moratorium was in effect from December 8, 2003, through June 7, 2005. As the moratorium only ended recently, it is difficult to know what impact this may have on the Borrower. There can be no assurance that this proposal or other similar proposals would not have a material adverse effect on joint ventures the Borrower has entered into and on the Borrower's operations and financial results.

#### Civil Monetary Penalties Laws and Other Federal Fraud Provisions

Under the Civil Monetary Penalties Law of the Social Security Act (the "CMP Law"), civil monetary penalties may be imposed against any person who knowingly presents or causes to be presented a claim (1) for items or services not provided as claimed (including coding), (2) that is false or fraudulent, (3) for services provided

by an unlicensed or uncertified physician, (4) for items or services provided by an excluded person or (v) for items or services that are not medically necessary. Penalties include up to \$10,000 for each item or service claimed plus an assessment of up to three times the amount claimed for each item of service. The CMP Law applies to all federal health care programs. Enforcement activity in this area appears to be increasing, and enforcement authorities may be adopting more aggressive approaches. In the current regulatory climate, it should be expected that many hospitals, possibly including the Borrower's hospitals, and physician groups will be subject to an investigation or inquiry regarding billing practices and false claims.

Enforcement authorities are in a position to compel settlements by providers charged with false claims violations by withholding or threatening to withhold Medicare, Medicaid and similar payments and by threatening criminal action. In addition, the cost of defending such actions, including the time spent by management to attend to the matter, and the facts of a particular case may dictate settlement.

In addition to the CMP Law provisions and those of the BBA discussed above, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established a variety of provisions designed to control fraud and abuse in government programs and to strengthen enforcement capabilities. HIPAA created new health care crimes, expanded the Medicare and the Medicaid exclusion provisions to provide reciprocal exclusion of entities and individuals with ownership or controlling interests in such entities and increased civil monetary penalties for a variety of actions.

On September 15, 2003, HHS published a Proposed Rule entitled, "Clarifying the Terms and Application of Program Exclusion Authority for Submitting Claims Containing Excessive Charges," submitted by the Office of the Inspector General ("OIG"). The proposed rule allows exclusion of an individual or entity from federal health care program participation if items or services have been furnished in excess of a patient's needs, or of a quality that does not meet professional standards; or any charge or cost submitted for payment that is more than 120% of the entity's usual charge or cost for the service or item. However, if the item/service is subject to a payment cap (*e.g.*, fee schedule amount) the charge will be deemed to be the lower amount represented by the fee schedule or the proposed charge. The proposed rule provides an extensive definition of "usual charge." It also cites situations in which above normal charges are allowable.

#### Emergency Medical Treatment and Active Labor Act

In response to concerns regarding inappropriate hospital transfers of emergency patients based upon the patient's inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"), commonly known as the "anti-dumping statute." EMTALA, among other things, imposes certain requirements that must be met before transferring a patient to another facility. Failure to comply with EMTALA can result in exclusion from the Medicare and the Medicaid programs as well as civil and criminal penalties.

A final rule describing hospitals' responsibilities regarding treatment emergencies became effective November 20, 2003. CMS issued an Interim Guidance Document (S&C-04-10) for the EMTALA final rule. Material provisions include:

- (a) Codification of existing policy prohibiting a hospital from seeking authorization from an insurance company until a medical screening exam has been provided and stabilization treatments have been initiated.
- (b) Individuals presenting at a hospital's main campus that is not a dedicated Emergency Department ("ED") must receive a medical screening only if requested, or where a prudent layperson observer would conclude that emergency treatment was necessary.
- (c) EMTALA does not apply when a request for emergency treatment is made at a hospital department that is off main campus and is not a dedicated ED.



- (d) There is no EMTALA obligation to an individual who has begun to receive services as part of a scheduled outpatient encounter.
- (e) The EMTALA obligation ends when an individual has been admitted for inpatient services regardless of whether or not the person has been stabilized.
- (f) The new rule eliminates the applicability of EMTALA to off-campus outpatient clinics that do not routinely provide emergency services.
- (g) Hospital-owned ambulances, operating under community-wide protocols, which are directed to take the individual to other hospitals than the hospital that owns the ambulance are not subject to EMTALA.

The MMA modified EMTALA by determining payment for EMTALA-mandated screening and stabilization services. The modifications apply to items and services furnished on or after January 1, 2004. Any item or service that is required to be furnished to an individual who is entitled to benefits is to be considered to be reasonable and necessary based on the information available to the treating physician at the time the service was ordered or furnished rather than the patient diagnosis. Further, the frequency with which the item or service was provided before or after the visit is not a consideration.

Failure of the Borrower to meet its responsibilities under EMTALA could have a material adverse effect upon the Borrower's operations and financial results.

#### Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as others. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants. At various times, the Borrower may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, division of services and use of a hospital's local market power for entry into related health care businesses. From time to time, the Borrower is or will be involved with some or all of these types of activities, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Borrower may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent upon myriad factual matters that may change from time to time. A U.S. Supreme Court decision allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case.

The Borrower will work with, rely upon and sometimes invest in medical groups or medical group management companies. If any of these medical groups or management companies is determined to have violated the antitrust laws, the Borrower also may be subject to liability as a joint actor, or the value of any investment in such group or company may be affected.

## Environmental and Occupational Health and Safety Laws & Regulations

Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are: (1) air and water quality control requirements; (2) waste management requirements; (3) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; (4) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospitals; and (5) requirements for training employees in the proper handling and management of hazardous materials and wastes. In its role as an owner and operator of properties or facilities, the Borrower may be subject to liability for removing and disposing of any hazardous substances that have come to be located on such properties or in such facilities, including any such substances that may have migrated off of the property. Typical hospital operations include, in various combinations, the handling, use, storage, transportation, disposal, and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, and contaminants. For this reason, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations or increase their costs or both; may result in legal liability, damages, injunctions, or fines; or may trigger investigations, administrative proceedings, penalties, or other government agency actions. There can be no assurance that the Borrower will not encounter such risks in the future, and such risks may have a material adverse effect upon the Borrower's operations and financial results.

### **Commercial Insurance and Managed Care Plans**

Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" ("PPOs"). Under such plans, there may be financial incentives for subscribers to use only hospitals that contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. With this contracting authority, private payors may direct patients away from unselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a DRG, discounted fee-for-service basis or on a discounted fixed rate per day of care. Many healthcare providers, including the Borrower, do not have accurate information about their actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or a PPO contract may vary significantly from projections. Therefore, the future financial consequences of such contracts may be unknown and their effect upon the financial condition of the Borrower may be different in the future than that reflected in the financial statements set forth in this Official Statement.

Some HMOs offer and mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each HMO enrollee who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to the HMO's enrollees. In some cases, the capitated payment covers total patient care provided, including the physician's component. If payment under an HMO or a PPO contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Furthermore, HMO contracts may contain a requirement that the hospital care for HMO enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital.

The Borrower currently has contracts with HMOs, PPOs and other managed care providers. Such programs individually negotiate payment terms with the Borrower, including DRG, discounted fee-for-service payments or discounted fixed rate per day of care payments. There is no assurance that the Borrower will maintain these contracts or obtain other similar contracts in the future. Failure to maintain these managed care contracts could have the effect of reducing the patient base or gross revenues of the Borrower. Conversely, participation may

maintain or increase the patient base, but may result in reduced payment and lower net income to the Borrower. Furthermore, the effect of these contracts on the consolidated financial statements of the Borrower may be different in the future than that reflected in the consolidated financial statements for the current period.

The Borrower's ability to develop and expand its services and, therefore, its profitability, is dependent upon the Borrower's ability to enter into contracts with HMOs, PPOs and other third-party payors at competitive rates. There can be no assurance that the Borrower will be able to attract third-party payors, and where it does, no assurance that it will be able to contract with such payors on advantageous terms. The inability of the Borrower to contract with a sufficient number of such payors on advantageous terms could have a material adverse effect upon the Borrower's operations and financial results. While the Borrower employs a system to control health care service utilization and increase quality, the Borrower cannot predict changes in utilization patterns or the system's effect on health care providers. Further, termination, or expiration without renewal, of such contracts could have a material adverse effect on the Borrower's operations and financial results. There can be no assurance that such contracts will be renewed upon expiration or not be terminated prior to expiration.

As of June 30, 2004, patients from HMOs and PPOs represented approximately 37% of the gross patient charges by the Borrower.

## **Integrated Delivery Systems**

### General

Many hospitals and health systems are pursuing strategies with physicians to offer an integrated package of health care services, including physician hospital services, to patients, health care insurers, and managed care providers. These integration strategies take many forms, several of which are discussed below. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities.

### Affiliations, Mergers, Acquisitions and Dispositions

The Borrower plans for, evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development processes. Currently, the Borrower is affiliated with other for-profit entities. In certain instances, such affiliates may conduct operations that are of strategic importance to the Borrower, or their operations may subject the Borrower to potential legal or financial liabilities.

The Borrower, from time to time, receives offers from, or conducts discussions with, third parties about the potential acquisition of operations or properties that may become part of the Borrower in the future, or about the potential sale of some of the Borrower's operations and properties. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use are held on a frequent, and usually confidential, basis with other parties and may include the execution of non-binding letters of intent. As a result, it is possible that new hospitals or other health care operations will be added to the Borrower in the future, and that the organizations and assets that make up the Borrower may change from time to time, subject to the provisions in the Master Indenture and other financing documents that apply to mergers, sales, dispositions or purchases of assets, or with respect to joining or withdrawing from the Obligated Group.

### Physician Contracting and Relations

The Borrower may wish to contract with physician organizations ("POs") (for example, independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with POs. In addition, the Borrower employs approximately 16 full-time physicians in response to industry trends in the markets it serves. This number includes primary care, pediatrics, neurology, internal medicine, and occupational medicine.

The success of the Borrower will be partially dependent upon its ability to attract physicians to join the POs and to attract POs to participate in the Borrower's network, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Borrower will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. Without empaneling a sufficient number and type of providers in the Borrower's system, the Borrower could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect upon the Borrower's operations and financial results.

#### Possible Increased Competition

The Borrower may face increased competition in the future from other hospitals, from skilled nursing facilities, and from other forms of health care delivery or payment plans that offer health care services to the population that the Borrower presently serves. Increased competition may result from the construction of new, or the renovation of existing, hospitals, specialty hospitals, skilled nursing facilities, ambulatory surgical centers, free-standing emergency facilities, and private laboratory and radiological services facilities, and the formation of various types of integrated delivery systems.

Increased competition may also result from forms of health care delivery systems that offer lower-priced services to the population served by the Borrower. Within the Borrower's service area, these services could displace some of the revenue-generating services presently offered by the Borrower. The services that could serve as substitutes for the Borrower's treatment include, among others, specialty hospitals, such as cardiac care hospitals and children's hospitals; specialized nursing facilities; home health care; intermediate nursing home care; preventive care; and drug and alcohol abuse programs.

### **Regulation Of Health Care Industry**

#### General

The health care industry is highly dependent upon a number of factors that may limit the ability of the Borrower to meet its obligations under the Loan Agreement, the Master Indenture and the Series 2005 Note. Among other things, participants in the health care industry (such as the Borrower) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Certain of these factors, which could have a significant effect on the future operations and financial condition of the Borrower, are discussed below.

#### Balanced Budget Act of 1997

As described below, the Balanced Budget Act of 1997 (the "BBA") contains a number of provisions that affect the Borrower.

Mandatory Exclusion. Under the BBA, those convicted of three health care-related crimes face mandatory, permanent exclusion from any federal health care program. Those convicted of two crimes will face a mandatory ten-year exclusion. The Secretary of HHS will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be "inconsistent with the best interests" of the program's beneficiaries.

Post-Hospital Referrals. The BBA expanded the requirements that hospitals have a discharge planning process, including information on the availability of home health services and providers in the area. Each plan must also identify any entity or provider to whom a patient is referred in which the hospital has a "disclosable financial interest."

Certain Discharges to Post Acute Care. The BBA established that hospital discharges to related skilled nursing facilities occurring on or after October 1, 1998, that fall within a specified cluster of ten high volume/high post-acute use DRGs will be considered a transfer for payment purposes.

Asset Loss Recognition. Another provision of the BBA eliminated the allowance for return on equity capital and eliminated the depreciation adjustment that allowed for recognition of gain or loss on dispositions of assets used in the provision of certain patient care services.

Provider-Sponsored Organization Tax Rules. Under the BBA, a tax-exempt organization shall not fail the organizational and operational prongs of the charitable purpose test "solely" because a hospital that it owns or operates participates in a Provider Sponsored Organization ("PSO"). The law also states, however, that any person with a material financial interest in a PSO shall be treated as a private shareholder or individual with respect to the hospital. As a result of this provision, a tax-exempt hospital participating in a PSO may be placed in greater jeopardy of losing its tax-exempt status if individuals connected with the PSO derive inappropriate financial benefits from it.

The BBA created the most comprehensive changes in Medicare reimbursement since the program began in 1966. These changes caused revenue from several Medicare programs to be reduced. For Federal fiscal year 2001, a Medicare relief package was passed to include an inpatient and outpatient payment update for hospitals, which also increased Medicare reimbursement for hospitals' bad debt and payments for medical education.

#### HIPAA Administrative Simplification Provisions

HIPAA mandates the adoption of standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the health care industry. The administrative simplification provisions of HIPAA have caused and will continue to cause significant and costly changes in health care. These provisions require new security measures, set standards for electronic signatures, standardize a method for identifying providers, employers, health plans and patients, require that the health care industry utilize the most efficient method to codify data and significantly change the manner in which hospitals communicate with payors.

Pursuant to HIPAA, the Secretary of HHS issued final regulations addressing the confidentiality of individuals' health information that required health care organizations to be fully compliant with the new privacy rules by April 2003. In addition, health care organizations were required to comply with a final regulation mandating the use of standard electronic transactions to communicate health data by October 2002. Health care organizations that applied for a one year extension of this deadline had until October 2003 to comply with the standard electronic transactions regulations. Final security regulations were published February 2003, and health care organizations have until 2005 to set a plan for compliance with the security regulations. Sanctions for failure to comply with HIPAA include criminal penalties and civil sanctions.

Management of the Borrower believes that it is compliant with the privacy and standard electronic transactions measures.

#### Taxpayer Relief Act of 1997

The Taxpayer Relief Act of 1997 tightened the ownership rules for determining whether certain types of income received from subsidiaries are subject to the unrelated business income tax ("UBIT"). Under prior law, tax-exempt organizations were required to pay tax on rents, royalties, annuities, and interest income only if such income was received from a taxable or tax-exempt subsidiary that was at least 80% controlled by the tax-exempt organization. Nevertheless, UBIT did not apply if the income came from a "second-tier" subsidiary (*i.e.*, a subsidiary owned by a subsidiary).

Under the law, such income is subject to UBIT if the parent organization owns more than 50% of the subsidiary, based upon voting power or value. In addition, a parent exempt organization is deemed to control any

subsidiary that it controls either directly or indirectly (for example, as a second-tier subsidiary). The 50% control test took effect for taxable years beginning after December 31, 1998. This provision may force some multi-member health care Borrowers to choose between maintaining control and incurring UBIT liability where business considerations dictate the use of intra-Borrower loans, leases, and licensing arrangements. Borrower management states that these provisions had no material impact on the net unrelated business income tax of the Borrower.

## **Tax-Exempt Status**

*Covenants to Maintain Tax-Exempt Status of Interest on the Bonds.* The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the Internal Revenue Service ("IRS"). The Authority and the Borrower will covenant in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Borrower to comply with any of these covenants may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. See "TAX MATTERS."

*Maintenance of the Tax-Exempt Status of the Borrower.* The tax-exempt status of the Bonds presently depends upon each member of Obligated Group maintaining its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale operations and business activities, they often do not directly address the myriad of operations and transactions entered into by a modern hospital organization. The IRS has announced that it intends to closely scrutinize transactions between non-profit and for-profit entities and, in particular, has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been addressed in any official opinion, interpretation, or policy of the IRS.

In October 1991, the IRS issued a General Counsel Memorandum ("GCM"), a statement of IRS policy and interpretation which has increased uncertainty over the IRS's position on a wide variety of activities commonly undertaken by health care organizations. The GCM (1) recommended the revocation of three previous IRS Private Letter Rulings which approved the sale by hospitals of certain net revenue streams to joint ventures involving physicians, (2) modified a prior GCM to make it clear that the IRS does not believe that entering into a joint venture with physicians to maintain or enhance a hospital's market share furthers a hospital's charitable purposes, and (3) stated that violations of the Medicare anti-fraud and abuse law or other federal laws by a tax-exempt provider may jeopardize the provider's federal tax exemption. See "Medicare-Medicare Audits Enforcement Actions" herein. As a wide variety of commonplace hospital-physician transactions might be interpreted to violate the Medicare and Medicaid anti-fraud and abuse laws or the prohibitions against self-referrals or other federal laws, the GCM has broadened the range of activities that may directly affect tax exemption, without defining specifically how such rules will be applied. As a result, tax-exempt hospitals are currently subject to an increased degree of scrutiny and perhaps enforcement by the IRS concerning transactions with physicians.

In 1998, the IRS issued a Revenue Ruling (the "Revenue Ruling") addressing the issue of whether a non-profit hospital that participates in a whole hospital joint venture with for-profit entities continues to qualify for tax exemption, and a 1999 federal Tax Court case addressed similar issues. Only two scenarios were discussed in the Revenue Ruling, and the IRS analysis was very fact specific. The Revenue Ruling and the Tax Court decision set forth a number of factors that the IRS will consider relevant in its analysis of such joint ventures. However, the issue remains as to whether this analysis will be applied to other types of joint ventures between for-profit and non-profit entities.

Management of the Borrower believes that the Borrower is not a participant in any joint venture of the specific type addressed in the GCM or the Revenue Ruling. However, the Borrower is and will be a participant in a variety of joint ventures and transactions with physicians. Management of the Borrower believes that the joint ventures and transactions to which the Borrower is and will be a party are consistent with the requirements of its tax-exempt status, but, as noted above, the GCM, the Revenue Ruling and the case law create uncertainty as to the state of the law in this regard.

In addition to private inurement issues, several other events have occurred that could impact the Borrower's tax-exempt status. First, state taxing authorities can attempt to revoke an organization's tax-exempt status. This occurred in February, 2004, when the Illinois Department of Revenue revoked the tax-exempt status of Provena Covenant Medical Center in Urbana, Illinois. Second, in 2004, several class action lawsuits were filed against tax-exempt hospitals and health systems coordinated through the Scuggs law firm. These lawsuits allege, among other charges, that the tax-exempt hospitals breached a charitable trust owed due to their tax exempt status. Although the Borrower is not a party of any of the class action suits filed to date, it is uncertain the impact such suits may have on the Borrower and other similarly situated tax-exempt hospitals. Third, both the Senate Finance Committee and the House Ways and Means Committee have initiated investigations regarding hospitals' tax-exempt status. At this time, the conclusions drawn from such investigations, and probable impact on tax-exempt status, is uncertain.

Under the Code, one penalty available to the IRS is the revocation of the tax-exempt status of 501(c)(3) nonprofit healthcare corporations. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of non-profit healthcare corporations, it could do so in the future. It is possible that loss of tax-exempt status by the Borrower or any future member of the Obligated Group could result in loss of tax exemption of the Bonds or of other tax-exempt debt of the Obligated Group, and defaults on covenants regarding the Bonds or other related tax-exempt debt would likely be triggered. Loss of tax-exempt status could also result in substantial tax liabilities on taxable income of the Borrower. For these reasons, loss of tax-exempt status of the Borrower could have material adverse consequences on the financial condition of the Borrower.

Given the uncertainty with respect to the standards applied by the IRS to a wide variety of hospital transactions, the Borrower and any future member of the Obligated Group are thus also at risk for incurring substantial monetary liabilities imposed by the IRS, as well as threatened revocation of exempt status.

*State Income Tax Exemption and Local Property Tax Exemption.* It is likely that the loss by the Borrower or any future member of the Obligated Group of federal tax exemption would also trigger a challenge to the state tax exemption of such member of the Obligated Group. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt healthcare providers with respect to their real property tax exemptions. In some cases, particularly where such authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the healthcare providers has been questioned. Some states have proposed or are anticipated to propose enactment of legislation that would require a tax-exempt hospital to provide indigent care in an amount commensurate with the amount of real property taxes from which the hospital is exempted.

*Unrelated Business Income.* In recent years, the IRS and state, county and local taxing authorities have undertaken audits and reviews of the operations of tax-exempt hospitals with respect to the generation of unrelated business taxable income ("UBTI"). The Borrower does participate in activities which may generate UBTI. An investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Borrower or possibly the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

#### **Other Risk Factors**

The following factors, among others, may also affect the operations or financial performance of the Borrower:

- (a) Competition from hospitals located within and outside of the Borrower's service area, from other types of health care providers that may offer comparable health care services, and from alternative or substitute health care delivery systems or programs, may decrease utilization of the Borrower's facilities. See APPENDIX A for a discussion of the organizations that the Borrower considers to be the major competing hospitals within the Borrower's service area.
- (b) Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care.
- (c) Development of health maintenance organizations, preferred provider organizations, or other managed care or integrated delivery systems and requirements of labor contracts, legislation, or employers encouraging or requiring the use of such organizations as an alternative to the use of Borrower facilities and similar institutions for the delivery of health care services.
- (d) Cost increases without corresponding increases in revenue could result from, among other factors: increases in salaries, wages, and fringe benefits of hospital employees, increases in costs associated with advances in medical technology or with inflation or future legislation that would prevent or limit the ability of the Borrower to increase revenues.
- (e) Any termination or alteration of existing agreements between the Borrower and individual physicians and physician groups who render services to the Borrower's patients or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the Borrower's patients with whom the Borrower does not have contractual arrangements.
- (f) Future contract negotiations with public and private insurers and other efforts of these insurers and of employers to limit hospitalization costs and coverage could adversely affect the level of reimbursement to the Borrower.
- (g) The ability of, or the cost to, the Borrower to continue to insure or otherwise protect itself against malpractice and general liability claims.
- (h) Future legislation and regulations affecting hospitals, their tax-exempt status, governmental and commercial medical insurance and the health care industry in general could have a material adverse effect upon the Borrower's operations and financial results.
- (i) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Borrower.
- (j) An inflationary economy and difficulty in increasing room charges and other fees charged while at the same time maintaining the amount or quality of health services may affect the ability of the Borrower to maintain sufficient operating margins.
- (k) The cost and effect of any future unionization of any of the Borrower's employees.
- (l) The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive, both as to rates and charges, as well as quality and



scope of care, could have a material adverse effect upon the Borrower's operations and financial results.

- (m) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970's.
- (n) Limitations on the availability of and increased compensation necessary to secure and retain nursing, technical or other professional personnel.
- (o) Changes in law or revenue rulings governing the not-for-profit or tax-exempt status of charitable corporations, such that not-for-profit corporations such as the Borrower, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charges or to discontinue services previously provided.
- (p) Efforts by taxing authorities to impose or increase taxes related to the property and operations of nonprofit organizations or to cause nonprofit organizations to increase the amount of services provided to indigents to avoid the imposition or increase of such taxes.
- (q) Proposals to eliminate the tax-exempt status of interest on bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, have been made in the past, and may be made again in the future. The adoption of such proposals would increase the Borrower's cost of financing future capital needs.
- (r) Increased unemployment or other adverse economic conditions that could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy in the Borrower's service area or by the closing of operations of one or more major employers in the service area may result in a significant change in the demographics of the service area, such as a reduction in the population.
- (s) Increased incidence of diseases such as AIDS, which may result in the treatment by the Borrower of increased numbers of patients without adequate insurance to cover the significant and sustained costs of such care.
- (t) Increases in the cost of complying with applicable federal and state regulations governing the precautions that must be followed by employees who come into contact with blood or body fluids or other infectious diseases such as tuberculosis.
- (u) Construction risks, including delays in construction schedules and cost overruns.

#### **Certain Other Matters Relating to Security for the Bonds**

*Certain Matters Relating to Security for the Bonds.* The facilities of the Borrower are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default which results in the acceleration of any Bonds, the Master Trustee may not realize an amount sufficient to pay in full the obligations, including those in respect of the outstanding Bonds, from the sale or lease of such facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Borrower, or otherwise.

*Amendments.* Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the principal amount of the outstanding Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority of the principal amount of Master Notes

Outstanding under the Master Indenture. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture, the holders of the requisite percentage of outstanding obligations may be composed wholly or partially of the holders of additional Master Notes.

*Pledge of Gross Revenues.* The effectiveness of the security interest in the Gross Revenues of the Borrower granted in the Master Indenture may be limited by a number of factors, including (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting the assignment of receivables due under the contracts with third party payers, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Bond Trustee, in the event of the bankruptcy of the Borrower, to collect and retain revenues due the Borrower from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of revenues with other moneys of the Borrower not so pledged under the Master Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the revenues of the Borrower which are earned by the Borrower within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after, any effectual institution of bankruptcy proceedings by or against the Borrower; (ix) rights of third parties in revenues converted to cash and not in the possession of the Bond Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code as from time to time in effect.

*Matters Relating to Enforceability of the Master Indenture.* The obligations of the Borrower under the Master Notes will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The joint and several obligations described herein of Obligated Group to make payments of debt service on Master Notes issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (a) are requested to make payments on any Master Notes which are issued for a purpose which is not consistent with the charitable purposes of the member of the Obligated Group from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (c) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws.

A member of the Obligated Group may not be required to make any payment to provide for the payment of any Master Note, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such member of the Obligated Group to the extent that such transfer would render the member of the Obligated Group insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such member of the Obligated Group under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such transfers from a member of the Obligated Group in order to pay debt service on the Master Notes may be voided by a trustee in bankruptcy in the event of bankruptcy of the member of the Obligated Group, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a member of the Obligated Group to pay debt service on a Master Note for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the member of the Obligated Group is analogous to a guarantor of the debt of the member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the member's guaranty was not received and that the incurrence of such obligation has rendered or will render the member of the Obligated Group insolvent or the member of the Obligated Group is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enhance charitable trusts and to see to the application of their funds to the intended charitable uses.

*Potential Effects of Bankruptcy.* If any member of the Obligated Group were to file a petition for relief (or if a petition were filed against such member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such member of the Obligated Group, and its property. If the bankruptcy court so ordered, such member's property, including its accounts receivable and proceeds thereof, could be used for the benefit of such member of the Obligated Group despite the claims of its creditors.

*Enforceability of Remedies.* All legal opinions with respect to the enforceability of the Master Indenture, the Indenture and the Loan Agreement will be expressly subject to a qualification that enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally, and by applicable principles of equity if equitable remedies are sought.

## **Bond Insurance**

In the event that the Borrower or any future member of the Obligated Group fails to provide funds to make payment of the principal of and interest on the Bonds when the same shall become due, any owner of Bonds shall have recourse against the Bond Insurer for such payments. However, the Bond Insurance Policy does not insure the principal of or interest on the Bonds coming due by reason of acceleration or optional or extraordinary optional redemption nor does it insure the payment of any redemption premium payable upon the redemption of the Bonds.

The Bond Insurance Policy does not insure against loss relating to payments made in connection with the sale of Bonds at Auctions or losses suffered as a result of a Holder's inability to sell Bonds.

The Bond Insurance Policy does not insure against loss relating to payments of the purchase price of Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender by a registered owner thereof.

Under no circumstances, including the situation in which the interest on the Bonds becomes subject to federal taxation for any reason, can the maturities of the Bonds be accelerated without the consent of the Bond Insurer, so long as the Bond Insurer performs its obligations under the Bond Insurance Policy. Furthermore, so long as the Bond Insurer performs its obligations under the Bond Insurance Policy, the Bond Insurer may direct, and must consent to, any remedies that the Trustee exercises under the Indenture.

In the event that the Bond Insurer is unable to make payments of principal and interest on the Bonds as such payments become due, the Bonds are payable solely from moneys received by the Trustee pursuant to the Series 2005 Note, the Loan Agreement and the Indenture. See "THE BOND INSURANCE POLICY AND THE BOND INSURER" for further information concerning the Bond Insurer and the Bond Insurance Policy.

In the event that the Bond Insurer is required to pay principal or interest on the Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Bonds.

The ratings on the Bonds are dependent on the ratings of the Bond Insurer. The Bond Insurer's current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies. The level of reserves maintained by the Bond Insurer could change over time and this could result in a downgrading of the ratings on the Bonds. The Bond Insurer is not contractually bound to maintain its present level of reserves in the future. See "RATINGS."

## **LITIGATION**

### **Authority**

To the knowledge of the Authority, there is not now pending or threatened any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officers of the Authority to their respective offices, is being contested. To its knowledge, there is no litigation pending or threatened which in any manner questions the right of the Authority to enter into the Bond Indenture with the Bond Trustee or the Loan Agreement with the Borrower or to secure the Bonds in the manner provided in the Bond Indenture and the Act.

### **Borrower**

There is no controversy or litigation of any nature, to the knowledge of their officers, now pending or threatened against the Borrower restraining or enjoining the issuance, sale, execution or delivery of the Series 2005 Notes, or in any way contesting or affecting the validity of the Series 2005 Notes.

As with most healthcare corporations, the Borrower is subject to certain legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action or damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program, or because the action has not proceeded to a stage which permits full evaluation. Since such actions either claim punitive damages which could become a liability of the Borrower and/or state or threaten causes of action which may not be covered by insurance or self-insurance, insurers for the Borrower and any self-insurance program have not provided assurance of coverage, and to the extent any cases have not been served, counsel has not been retained to evaluate them.

No litigation is now served upon or, to the knowledge of the Borrower, otherwise pending or threatened against the Borrower which in the aggregate would have a material adverse effect on the Borrower's operations or condition, financial or otherwise.

## **TAX MATTERS**

In the opinion of Ice Miller, Indianapolis, Indiana ("Bond Counsel"), under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Authority and the Borrower with the Tax Covenants (as hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. If, subsequent to the date hereof, the interest rate mode applicable to the Bonds is changed, Bond Counsel expresses no opinion on the effect of such change on the exclusion from gross income for federal income tax purposes of interest on the

Bonds. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the exemption of interest on the Bonds for State income tax purposes. See Appendix E hereto for the form of the approving opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Authority and the Borrower will covenant not to take any action, nor fail to take any action within their respective power and control with respect to the Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Bond Indenture, the Loan Agreement and certain certificates and agreements to be delivered on the date of delivery of the Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Bond Indenture if interest on the Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the issue date of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this legislation on their ownership of the Bonds.

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from federal gross income and exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

## LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Authority are subject to the approval of Ice Miller, Bond Counsel, Indianapolis, Indiana. Certain matters will be passed upon for the Authority by its Bond Counsel, Ice Miller, Indianapolis, Indiana, for the Borrower by its counsel, Ice Miller, Indianapolis, Indiana, and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana.

## RATINGS

Standard & Poor's Ratings Group ("Standard & Poor's"), and Moody's Investors Service will assign the Bonds the ratings of "AAA" and "Aaa," respectively, based on the understanding that the Bond Insurer will issue the Bond Insurance Policy concurrently with the issuance of the Bonds. Standard & Poor's also has assigned an underlying (uninsured) rating of "A+" to the Borrower. Such ratings reflect only the views of the rating agencies and an explanation of the significance of such ratings may be obtained from the rating agencies. **There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn**

**entirely by such rating agency if in the judgment of either rating agency circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.**

## **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC"), the Borrower will agree to provide or cause to be provided through the Bond Trustee or other designated agent (the "Agent"):

- (i) to each nationally recognized municipal securities information repository ("NRMSIR") designated by the SEC and to an appropriate state information depository designated by the State of Indiana ("SID"), if any, certain annual financial information and operating data (the "Annual Information") of the type of information contained in Appendix A under the captions "THE HOSPITAL - Selected Utilization Statistics," "CERTAIN FINANCIAL INFORMATION - Sources of Revenues of the Hospital," "- Summary of Revenues and Expenses," "- Historical Pro Forma Debt Service Coverage" (only as to actual historical debt service coverage) and "- Historical and Pro Forma Capitalization," and the consolidated audited financial statements included in Appendix B of this Official Statement; such information will be available not later than 150 days after the end of the Borrower's fiscal year for the proceeding calendar year and will be made available to the Agent, to the NRMSIR's and the SID, and to each holder of the Bonds who requests such information by written request to the Borrower;
- (ii) in addition to the Annual Information required to be filed pursuant to subparagraph (i), the Borrower shall, or shall cause the Agent to, not later than 60 days after the end of each of the first three (3) quarters of the Borrower's fiscal year (which fiscal year as of the date hereof ends June 30), provide to each NRMSIR a Quarterly Report consisting of an unaudited consolidated balance sheet and consolidated statements of operations and changes in net assets for such fiscal year prepared by the Borrower;
- (iii) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of any of the following events with respect to the Bonds, if, such event is material: (a) principal and interest payment delinquencies; (b) non-payment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (g) modifications to the rights of holders of the Bonds; (h) unscheduled bond calls; (i) defeasance; (j) release, substitution, or sale of property securing repayment of the Bonds; and (k) rating changes;
- (iv) in a timely manner, to each NRMSIR or to the MSRB and to the SID, notice of a failure to provide the Annual Information not later than 150 days after the end of the Borrower's fiscal year.

The obligations of the Borrower described above will remain in effect only for such period that (i) the Bonds are outstanding in accordance with their terms and (ii) the Borrower remains an obligated person within the meaning of the Rule. The Borrower acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Bonds (including holders of beneficial interests in the Bonds).

There have been no instances in the previous five years in which the Borrower has received any notice that it has failed to comply, in any material respect, with any previous undertaking.

## **UNDERWRITING**

Piper Jaffray & Co. and City Securities Corporation (the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price of \$23,850,000 (which reflects underwriting discount of \$150,000) pursuant to an agreement entered into by and among the Authority, the Borrower and the Underwriters. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

The Borrower has agreed to indemnify the Underwriters and the Authority against certain liabilities. The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions of the agreement among the Authority, the Borrower and the Underwriters.

## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS**

The consolidated financial statements of the Borrower and subsidiary as of June 30, 2004 and 2003 and for the years then ended are included as Appendix B to this Official Statement. Such consolidated financial statements have been audited by KPMG LLP, Indianapolis, Indiana, independent auditors, to the extent and for the periods indicated in their report thereon, which is also included in Appendix B hereto.

## **FINANCIAL ADVISORY SERVICES**

Kaufman, Hall & Associates, Northfield, Illinois, acted as financial advisor to the Borrower in the implementation of the Bonds. Kaufman Hall is a national consulting firm which acts as capital advisor to healthcare organizations particularly in the areas of short and long term debt financings, joint ventures and overall capital planning.

## **MISCELLANEOUS**

The references herein to the Act, the Master Indenture, the Bond Indenture and the Loan Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to the Act, the Master Indenture, the Bond Indenture and the Loan Agreement. Copies of the documents mentioned under this heading are on file at the offices of Piper Jaffray & Co. and following delivery of the Bonds will be on file at the principal corporate trust office of the Bond Trustee.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Bonds.

The attached Appendices A, B, C, D, E and F are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Borrower has reviewed the information contained herein which relates to it and the Borrower's property and has approved all such information for use within the Official Statement.

The execution and delivery of this Official Statement dated July 13, 2005, has been duly authorized by the Authority.

INDIANA HEALTH AND  
EDUCATIONAL FACILITY FINANCING  
AUTHORITY

By: /s/ Ryan C. Kitchell  
Ryan C. Kitchell, Vice Chair

This Official Statement is approved:  
MARION GENERAL HOSPITAL, INC.

By: /s/ David L. Callecod  
David L. Callecod, President / CEO



---

---

## **APPENDIX A**

**Information Concerning**

# **MARION GENERAL HOSPITAL**

*Marion, Indiana*

**The information contained herein as Appendix A to this Official Statement has been obtained from Marion General Hospital, Inc. and other sources believed to be reliable.**

---

---

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
MARION GENERAL HOSPITAL, INC. ....	A-1
History.....	A-1
The Project and the Refinancing .....	A-2
THE OBLIGATED GROUP .....	A-2
Joint Ventures .....	A-2
Board of Directors.....	A-2
Conflicts of Interest.....	A-3
THE HOSPITAL.....	A-4
Services.....	A-4
Medical Staff.....	A-5
Employees.....	A-7
Employees' Retirement Plan.....	A-7
Accreditation, Licenses, Memberships and Approvals .....	A-7
Auxiliary .....	A-8
Affiliations and Educational Programs .....	A-8
Primary and Secondary Service Areas .....	A-8
Competition.....	A-8
The County.....	A-9
Casualty and Liability Insurance.....	A-9
Selected Utilization Statistics.....	A-10
CERTAIN FINANCIAL INFORMATION .....	A-10
Sources of Revenue of the Hospital .....	A-10
Summary of Revenues and Expenses.....	A-10
Historical Pro Forma Debt Service Coverage .....	A-11
Historical and Pro Forma Capitalization.....	A-12
MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATIONS.....	A-12

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

## MARION GENERAL HOSPITAL, INC.

### History

Marion General Hospital, Inc. (the "Hospital") is a nonprofit corporation organized and existing under the laws of the State of Indiana and is an organization described in Section 501(c)(3) of the Internal Revenue Code. The Hospital operates an acute care, general hospital with 149 acute care beds and 20 newborn bassinets.

The Hospital is located in Marion, Indiana and is the only acute care, general hospital located in Grant County, Indiana. Marion is in north-central Indiana approximately 65 miles northeast of Indianapolis and 50 miles southwest of Fort Wayne. The Hospital is classified as a Rural Referral Center by Medicare and was approved as a Sole Community Hospital in February 2005.

The Hospital was formed as Grant County Hospital in 1902. Land was donated to the Hospital in 1917, and the Hospital's facility (the "Hospital Facility") was moved to its present location. The Hospital was renamed Marion General Hospital in 1935.

The Hospital Facility was expanded in 1944, 1958, 1964 and 1977. In 1985, a five-floor diagnostic, treatment and surgical building was placed in service. In 1991, on the lower level of the Hospital Facility, the Oncology Department was remodeled and the Radiology Department was expanded with development of a new Mammography Center. Additionally, in 1991, the Hospital acquired a medical office building adjacent to the Hospital Facility and organized a for-profit subsidiary corporation to conduct a retail pharmacy business in the medical office building.

In 1993, the Hospital completed construction of a parking garage adjacent to the Hospital Facility that provides approximately 513 parking spaces, remodeling of the Obstetrics Unit that included conversion to a Labor, Delivery, Recovery (LDR) concept, and installation of a 1.5 Tesla MRI unit and a Cardiac Catheterization Unit on the lower level of the Hospital Facility.

In 1995, a six-story facility was constructed directly across the street from the main Hospital Facility. This facility is connected to the parking garage and the main Hospital Facility by an enclosed skywalk to facilitate movement for patients and staff within the Hospital's Facility. This facility includes a power plant that now powers the entire Hospital Facility, outpatient services such as a preadmission testing area, laboratory, radiology (including an open-sided MRI), cardiac rehab, physical medicine and a cancer center with medical and radiation oncology. Also, three floors were constructed to provide physician office space and an Ambulatory Surgery Center, the latter of which is a joint venture among the Hospital, physicians on the medical staff and Cardinal Health System.

In 1997, the Hospital remodeled the cafeteria area.

In 2002, the Hospital constructed a new emergency room and critical care center, combining the ICU and CCU nursing units. Additionally, the Pediatric Nursing unit was relocated to the OB floor, some non-private rooms were converted to private rooms and all surgical beds and the outpatient pre- and post-operating areas were relocated to the same floor as the operating room. Certain mechanical remodeling was undertaken, as well, to provide the Hospital with a new chiller and provide for future expansion.

In 2005, the Hospital remodeled the area on the second floor of the Hospital Facility where the Extended Care Facility (which closed in 2004) and Pediatric unit were located. The remodeled area houses the Hospital's new 18-bed inpatient acute rehabilitation unit which opened in June 2005.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

## **The Project and the Refinancing**

Proceeds of the Series 2005 Bonds will be used to refinance the outstanding Series 1995 Bonds and to fund routine capital expenditures of the Hospital, including a helipad, ambulance garage and construction of the acute rehabilitation unit, as estimated below.

Total Estimated Project Cost	\$6,490,000
Series 1995 Refinancing	\$16,555,000

## **THE OBLIGATED GROUP**

The Hospital is the only member of the Obligated Group. The Hospital has one wholly-owned subsidiary, Professional Arts Pharmacy, Inc., which is a retail pharmacy located in the Hospital's Ambulatory Care Center. The financial statements of the subsidiary are consolidated with the Hospital's financial statements. The assets of the subsidiary comprise less than 1% of the Hospital's total assets.

## **Joint Ventures**

The Hospital is an owner in two joint ventures, neither of which is part of the Obligated Group. The Hospital owns approximately 47.9% of The Surgery Center of NorthCentral Indiana, LLC, d/b/a River View Surgery Center, which is a multi-specialty surgery center located on the Hospital's main campus. Cardinal Health System, Inc. owns approximately 9.6%, and physicians own approximately 42.5% of the Surgery Center. The Surgery Center opened in January 1998. Progressive Cancer Care, LLC, opened in May 2005 and provides radiation oncology services and rents space to the Hospital for its medical oncology service. The Hospital currently owns 50% of this joint venture, BMH Business Group, Inc. owns 10.0% and physicians own 40.0%.

## **GOVERNANCE AND ORGANIZATION**

### **Board of Directors**

The Hospital is governed by a 17 member Board of Directors (the "Board"). Authority to act on behalf of the Hospital is vested in the Board. Fifteen members of the Board serve three-year terms and may be re-elected for a second consecutive term. Two members of the Board are physicians that are recommended by the medical staff. After a one-year hiatus, a person may be re-elected to the Board. The sixteenth member of the Board is the President/CEO of the Hospital and the seventeenth member is the Chief of the Medical Staff. Other Medical Staff

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

officers serve as ex-officio members of the Board for one-year terms. An effort is made to preserve both professional and geographical diversification in the composition of the Board. The current Board of Directors of the Hospital is shown below:

<b>Name/Board Position</b>	<b>Company/Profession</b>	<b>Current Term Expires</b>
Jack C. Sciaudone Chairperson	Tulox Plastics Corporation President	2006
Eric Marshall Vice Chairperson	Clique Creative Services President	2006
Donna G. Oatis Secretary	The Office, Inc. President	2006
Jeffrey T. Harris Treasurer	Matthews Buick, Pontiac, Oldsmobile, GMC Vice President	2007
David L. Callecod	President/CEO, Marion General Hospital	N/A
Paul D. Wolfe, M.D.	President of Medical Staff, Marion General Hospital	N/A
Ramesh B. Bakane, M.D.	Urologist	2006
Jack Brady	Career Coach	2007
David J. Gyertson, Ph.D.	Taylor University President	2005
Greg Kitts	Unemployed MBA Student	2007
Bill Lester	Winterfield Inc. President	2007
Scott A. Linn	NX Communications LLC President	2008
Royce H. Mitchell	Edward Jones & Co. Investment Representative	2007
Salil Rajmaira, M.D.	Arthroscopy & Orthopaedic Surgery Physician	2009
William H. Rea	Rea Logan & Co. Certified Public Accountant	2007
Mark E. Spitzer	Browne, Spitzer, Herriman & Musser Attorney	2005
Cheryl Thompson	Retired Chief Recreation Therapist	2005

### **Conflicts of Interest**

Certain transactions have occurred and are anticipated to occur in the future between the Hospital and such members of the Board or entities with which such Board Members are affiliated. Such transactions are fully disclosed to the Board and are considered to be arms length transactions in the normal course of the Hospital's business.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

## **Administrative Officers**

The day-to-day management of the Hospital is delegated by the Board to the Hospital's executive management. The executive management of the Hospital is profiled below:

**David L. Callecod, FACHE**, President/CEO, age 38, holds a Bachelor's degree from Wabash College, his Masters in Business Administration from Indiana Wesleyan University, and is a Fellow of the American College of Healthcare Executives. His 15 years of experience in healthcare includes serving as the CEO for 195-bed Central Arkansas Healthsystem in Searcy, Arkansas, and serving as CEO at Winona Memorial Hospital in Indianapolis. He began his career in 1989 at Culver Union Hospital, now St. Clare Medical Center, in Crawfordsville, Indiana, serving his final two years there as chief operating officer. He currently sits on the boards of Indiana Wesleyan University, Grant County YMCA and Marion-Grant County Chamber of Commerce.

**Paul L. Usher, FACHE, CPA, FHFMA**, Vice President-Finance, age 60, holds a B.S. degree from Ball State University. His experience includes five years in healthcare consulting with KPMG Peat Marwick, Chief Financial Officer of Hendricks Community Hospital in Danville, Indiana, and Director of Finance for a national emergency physician group. He has been the Chief Financial Officer of Marion General Hospital for 23 years, including two periods of service, and has a total of 36 years of healthcare experience. He is a Certified Public Accountant, a Fellow of the American College of Healthcare Executives and a Fellow of the Healthcare Financial Management Association (HFMA). He is Past President of the Indiana Chapter of HFMA and also a member of the AICPA and Indiana CPA Association. He has been active in the community, serving the United Way, his church and as past president of the Family Service Society.

**Bernadine L. Wallace**, Vice President-Nursing Services, age 56, holds a B.S. degree from Loretto Heights College and a Masters degree from Catholic University. She has held her current position for sixteen years with a total tenure at the Hospital of 28 years and has a total of 32 years of healthcare experience. She is a member of the Indiana Organization of Nurse Executives, American College of Healthcare Executives and Sigma Theta Tau; she is past President of the Indiana Organization of Nurse Executives. She currently sits on the board of the Indiana Organ Procurement Organization and the IHHA Counsel of Resource Management.

**Steven D. Poe, D.O., FACOEP**, Vice President of Medical Affairs, age 53, holds a B.S. degree from Lincoln University and an Osteopathic degree from Kirksville College of Osteopathic Medicine. He did his Emergency Medicine Residency at University Hospital, Jacksonville, Florida. He has been in his present position for four years. He has been a physician since 1979. He is Board Certified in Emergency Medicine and holds a Certificate of Added Qualification in Occupational Medicine. He has served as Medical Director of MGH-ER, Emergency Medicine Residency Director, ER Medical Director and Ambulance Medical Director - Deaconess Hospital, St. Louis. He currently serves as the Medical Director for Work Right and the MGH Ambulance Service.

## **THE HOSPITAL**

### **Services**

Marion General Hospital is an acute care hospital offering a wide array of services as outlined below:

#### **Inpatient Services**

Medical Care  
Surgical Care  
Critical Care  
Pediatric  
Family Birthing Center  
Surgery & Recovery  
Acute Rehabilitation

*Capitalized terms used, but not defined, in this Appendix A are defined in the forefront of this Official Statement and in **Appendix C** to this Official Statement.*

## **Outpatient Services**

### Cardiology

- Anti-Coagulation Clinic
- Cardiac Catheterization Laboratory
- Cardiac Rehabilitation
- Cardio-Vascular Laboratory
- Congestive Heart Failure Clinic
- Electrophysiology Studies

### Emergency Ambulance Service

### Emergency Room

### Laboratory

### Lithotripsy

### Medical Oncology

### Neurodiagnostics

- EEG
- EMG
- Sleep Laboratory

### Nutritional Counseling

### Outpatient Surgery

### Physical Medicine

### Radiology

- CT Scan
- Mammography
- MRI (open-sided and fixed site)
- Nuclear Medicine
- Ultrasound

### Respiratory Care

### Work Right (occupational health program)

### Wound Care Clinic

## **Medical Staff**

As of May 31, 2005, the medical staff consisted of 96 physicians, all of whom are on the active/associate staff. Of the 96 active/associate staff members, 81 are Board Certified and eight are Board Eligible. The remaining staff physicians are classified as 55 courtesy staff, two courtesy dental, and 36 honorary. The average age of the active staff members is 51 years.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

The following table presents total physicians, average age and board certified percentages of the total staff members as of May 31, 2005.

Service	Total Physicians	Average Age	Board Certified Percent
Anesthesiology	7	56	57%
Cardiology	6	50	100
Clinical and Anatomic Pathology	5	54	80
Dermatology	1	51	100
Emergency Medicine	5	43	20
Family Practice	15	49	73
Gastroenterology	1	49	100
General Practice	1	59	100
General Surgery	6	55	67
Gynecology	1	64	100
Internal Medicine	11	48	82
Neurology	1	47	100
OB/GYN	5	51	100
Occupational Medicine	1	55	100
Oncology and Hematology	1	36	100
Ophthalmology	1	42	100
Oral/Maxillofacial Surgery	2	57	100
Orthopedic Surgery	5	51	100
Otolaryngology	2	51	100
Pediatrics	5	54	100
Physical Medicine/Rehabilitation	2	62	100
Pulmonary Medicine	2	54	100
Radiation Oncology	3	43	67
Radiology	4	49	100
Urology	<u>3</u>	<u>54</u>	<u>100</u>
<b>Total/Average</b>	<b>96</b>	<b>51</b>	<b>82%</b>

*Source: Hospital Records*

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*



An analysis of the top ten admitting physicians for the fiscal year ended June 30, 2004 is presented below:

Specialty	Age	Percent of Total Admissions
Internal Medicine	38	8.0%
Internal Medicine	38	5.4%
OB/GYN	51	3.9%
Family Practice	40	3.9%
OB/GYN	40	3.3%
Family Practice	47	3.1%
OB/GYN	39	3.0%
Internal Medicine	40	2.6%
Pulmonary Disease	58	2.6%
Internal Medicine	<u>65</u>	<u>2.4%</u>
<b>Total/Average</b>	<b>46</b>	<b>38.1%</b>

*Source: Hospital Records*

## Employees

As of May 31, 2005, the Hospital employed 1,208 persons, of whom 822 were full-time and 386 were part-time employees, for a total of 878 full-time equivalents including 176 full-time equivalent registered nurses and 53 full-time equivalent licensed practical nurses.

The Hospital has active recruitment and tuition loan programs to recruit critical staff. The Hospital rarely uses agency nurses due to its implementation of an in-house resource pool and regular PRN pool.

The Hospital provides compensation and a full range of employee benefits, which the Hospital believes are competitive with other hospitals in the area. These benefits include pension, health insurance, dental insurance, group life insurance, long-term disability insurance, short-term disability insurance, and paid time off.

The Hospital characterizes its relationship with its employees as generally good. No Hospital employees are represented by a labor organization.

## Employees' Retirement Plan

The Hospital offers its Employees' Retirement Plan to all personnel over the age of 25 years who have been employed by the Hospital for at least one year. The Hospital pays the entire cost of this defined benefit plan. As of May 31, 2005, there were 925 active participants of the pension plan.

The Employees' Retirement Plan has an unfunded deficit of \$12,606,606 as of March 31, 2005.

## Accreditation, Licenses, Memberships and Approvals

The Hospital is licensed by the Indiana State Board of Health in accordance with Indiana Code 16-21-1, *et seq.*, and is accredited by the American Osteopathic Association's Bureau of Healthcare Facilities Accreditation (HFAP). The Hospital was awarded a three-year accreditation by the HFAP effective November 5, 2003. The Hospital is qualified as a health care provider under the provisions of the Medical Malpractice Act, Indiana Code 34-18-1, *et seq.*

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

Hospital memberships include the American Hospital Association, the Indiana Hospital & Health Association, Indiana Chamber of Commerce, Marion-Grant County Chamber of Commerce, Gas City Area Chamber of Commerce, Main Street Marion, College of American Pathologists, Indiana Poison Center, and VHA, Inc.

## Auxiliary

The Marion General Hospital Auxiliary was formed in 1956 to assist in making the Hospital Facility a pleasant place for the patients, employees and staff. It operates the gift shop and sponsors the Junior Volunteer Program. Volunteers assist in many areas, such as the emergency room, pharmacy, registration, and surgery.

## Affiliations and Educational Programs

The Hospital maintains active educational programs, both informally, through courses offered to the staff by its Educational Department, and formally, through its affiliation with Ivy Technical Community College's radiology technician, respiratory therapist and LPN to RN transition programs, the Indiana Wesleyan University nursing degree program, Indiana University at Kokomo nursing degree program and Marion Community School System's one-year Licensed Practical Nurse Program at Tucker Vocational School.

## Primary and Secondary Service Areas

The Hospital's primary service area is Grant County, Indiana. During the fiscal year ended June 30, 2004, the primary service area provided approximately 89% of the Hospital's patients as measured by the percentage of the Hospital's total patient discharges.

The Hospital's secondary service area consists primarily of Wabash, Blackford and Miami Counties, all of which are Indiana counties contiguous to Grant County. During fiscal year 2004, the secondary service area provided approximately 7.4% of the Hospital's patients as measured by the percentage of the Hospital's total patient discharges. The remaining 3.6% of the Hospital's patients came from outside the primary and secondary service areas.

## Competition

The following table shows the market share for the Hospital and its major competitors in the primary service area.

<u>Provider</u>	<u>Fiscal Year</u> <u>2002</u> <u>% of Total</u>	<u>Fiscal Year</u> <u>2003</u> <u>% of Total</u>	<u>Fiscal Year</u> <u>2004</u> <u>% of Total</u>
1. Marion General Hospital	69.6%	68.6%	69.6%
2. Ball Memorial Hospital	4.9%	5.9%	5.3%
3. Lutheran Hospital of Indiana	4.3%	4.7%	4.7%
4. Clarian Health Partners	4.7%	4.3%	4.2%
5. St. Vincent Hospital & Health Services	6.0%	5.5%	3.6%
6. Others	<u>10.5%</u>	<u>11.0%</u>	<u>12.6%</u>
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: IHHA*

The penetration of other providers into the Hospital's service area primarily comes from tertiary providers who provide services not currently offered by the Hospital.

Pursuant to a Medical Staff Ad Hoc Committee recommendation, the Hospital is pursuing the addition of surgical podiatry services in order to capture cases currently lost to outmigration.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

The Hospital, in partnership with a new Neurologist, plans to dedicate an Epilepsy Center in Marion within the next six months. The Center will provide services that were previously unavailable to patients in Marion and certain surrounding counties.

## **The County**

Grant County (the "County") is situated in east central Indiana approximately 50 miles southwest of Fort Wayne and 65 miles northeast of Indianapolis. The population of the County in 2004 is estimated at 71,447, according to 2004 Claritas, Pop-Facts Population Quick Facts.

The County has a diversified economy including agriculture, manufacturing and commerce. The County's farms produce livestock and grain crops. Much of the industrial activity of the County is centered in and around the City of Marion and includes a large number of nationally recognized manufacturers including General Motors Corporation, American Woodmark, Amcast Automotive, Dana Corporation, and General Cable Co. General Motors recently announced plans to cut approximately 25,000 jobs in the United States by 2008. It is not known at this time what impact these cuts will have on the General Motors plant located in Marion. The following table identifies Grant County's top five employers as of July 2004 other than the Hospital which is currently the second largest employer.

### ***Grant County Top Five Employers***

<b><u>Name</u></b>	<b><u>Business</u></b>	<b><u>Number of Employees (est.)</u></b>
General Motors	Automotive	1,724
Marion Community Schools	Education	1,009
Indiana Wesleyan University	Education	710
Veterans Administration Hospital	Healthcare	705
American Woodmark	Manufacturing	665

*Source: Grant County Economic Growth Council*

Transportation facilities serving the County include Interstate 69, which links the area to the nation's interstate highway system, a number of principal state highways, Greyhound Bus Service and charter air passenger and freight service via Marion Municipal Airport. Rail transportation is provided by the Norfolk & Western and Penn Central Railways. Numerous truck freight lines serve the County, with sixteen maintaining local terminals in Marion.

Major universities located in Grant County include Taylor University in Upland, with an enrollment of approximately 1,850, and Indiana Wesleyan University located in Marion, with an enrollment of approximately 2,500.

## **Casualty and Liability Insurance**

In 1975, the State of Indiana enacted the Medical Malpractice Act, Indiana Code 34-18-1, *et seq.*, which limits the liability for malpractice claims against "qualified" hospitals under the Medical Malpractice Act. For a hospital to qualify under this statute it must maintain malpractice insurance coverage in a minimum amount \$250,000 per occurrence and \$7,500,000 in the annual aggregate. The statute also requires that each participating hospital pay an annual surcharge of a specified percent of the hospital's malpractice insurance premium to maintain the State Patient Compensation Fund. The statute limits the recovery for malpractice claims against a hospital qualified under the statute to \$1,250,000 per occurrence with the hospital being responsible for the first \$250,000 per occurrence of such claims. The Medical Malpractice Act, including the statutory limitation on damages, has been upheld by the Indiana Supreme Court as constitutional and the Hospital is "qualified" under such Act.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

Effective July 1, 2005, Marion General Hospital is joining the VHA Central Reciprocal Risk Retention Group for malpractice and general liability coverage. The insurance captive is domiciled in Burlington, Vermont. The Hospital joins seven other VHA hospitals that formed this group in December 2003.

The Hospital maintains other insurance coverage, including property insurance coverage, as is customary in amounts and with carriers which are consistent with the requirements of the Master Indenture and industry practices.

### Selected Utilization Statistics

The following table sets forth selected historical utilization statistics for the Hospital for the fiscal years ended June 30, 2003 and 2004, and the 11 months ended May 31, 2004 and 2005.

	Fiscal Year Ended June 30,		11 Months Ended May 31,	
	2003	2004	2004	2005
Discharges	7,151	7,259	6,714	6,267
Patient Days	27,471	25,960	24,114	21,132
Average Length of Stay	3.84	3.55	3.87	3.38
Average Daily Census	75.3	71.1	72.0	63.1
Staffed Beds	172	147	147	151
ER Visits	36,403	38,370	35,211	34,843
Deliveries	725	775	719	648

*Source: Hospital Records*

## CERTAIN FINANCIAL INFORMATION

### Sources of Revenue of the Hospital

Payments to the Hospital are made on behalf of certain patients by Blue Cross, Federal and State governments under Medicare and Medicaid programs and other payors, including commercial insurance and self-pay. A percentage breakdown by source of gross patient revenue for the Hospital is presented below:

Payor	Fiscal Year Ended June 30,	
	2003	2004
Medicare	47%	45%
Medicaid	12%	13%
Blue Cross	12%	13%
Commercial Insurance	25%	24%
Self Pay, welfare, and contract	4%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: Hospital records*

### Summary of Revenues and Expenses

The following summaries of revenues and expenses and balance sheet of the Hospital for the fiscal years ended June 30, 2003 and 2004, have been compiled from audited consolidated financial statements of the Hospital. These summaries should be read in conjunction with such consolidated financial statements and related notes which have been audited by the Hospital's independent auditors as set forth in their report included in Appendix B. The summary information for the 11-month period ended May 31, 2004 and 2005, was derived from unaudited financial statements prepared by the management of the Hospital.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

Summary of Revenues and Expenses				
	Fiscal Year Ended June 30, (000's)		11 Months Ended May 31, (000's)	
	2003	2004	2004	2005
Net patient service revenue	\$98,789	\$107,288	\$94,625	\$97,426
Other revenue, net	3,044	2,956	2,783	3,079
Net assets released from restrictions used for operations	<u>6</u>	<u>2</u>	<u>0</u>	<u>0</u>
Total revenue and support	101,840	110,247	97,408	100,505
Total expenses	<u>98,526</u>	<u>110,707</u>	<u>99,099</u>	<u>100,832</u>
Operating income (loss)	3,315	(460)	(1,691)	(327)
Other nonoperating gains	<u>2,926</u>	<u>2,752</u>	<u>2,414</u>	<u>4,000</u>
Excess of revenue, support, and gains over expenses*	6,241	2,292	723	3,673

\* Excludes unrealized gains and losses on investments and changes in minimum pension liability.

Balance Sheet				
	Fiscal Year Ended June 30, (000's)		11 Months Ended May 31, (000's)	
	2003	2004	2004	2005
Total current assets	\$31,954	\$40,272	\$33,362	\$34,492
Total assets limited as to use or restricted	75,540	72,716	73,930	77,168
Property and equipment, net	73,628	77,543	76,445	75,180
Total other assets	<u>5,426</u>	<u>8,225</u>	<u>9,044</u>	<u>9,031</u>
Total assets	<u>186,548</u>	<u>198,756</u>	<u>192,781</u>	<u>195,871</u>
Total current liabilities	10,382	14,684	11,355	9,973
Long-term debt, less current installments	50,222	48,673	48,409	45,119
Other non-current liabilities	16,718	14,529	14,209	14,833
Total net assets	<u>109,226</u>	<u>120,870</u>	<u>118,808</u>	<u>125,946</u>
Total liabilities and net assets	<u>186,548</u>	<u>198,756</u>	<u>192,781</u>	<u>195,871</u>

### Historical Pro Forma Debt Service Coverage

The following schedule sets forth Net Income Available for Debt Service for the fiscal years ended June 30, 2003 and 2004. It is derived from the corresponding information contained in the consolidated financial statements for the fiscal years ended June 30, 2003 and 2004, included in Appendix B. The following schedule also shows, on a pro forma basis, the resulting coverage by such Net Income Available for Debt Service of the total of the maximum annual debt service in any future fiscal year on the Series 2005 Bonds and the other currently

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

outstanding long-term indebtedness of the Hospital not being refinanced by the Series 2005 Bonds. Dollars are in thousands.

	Fiscal Years Ended June 30,	
	2003	2004
Excess of revenue, support, and gains over expenses	\$6,241	\$2,292
Add Back:		
Depreciation Expense	8,085	9,084
Interest Expense	<u>1,982</u>	<u>1,861</u>
Net Income Available for Debt Service	\$16,308	\$13,237
Pro Forma Maximum Annual Debt Service <sup>1</sup>	\$3,659	\$3,659
Historical Pro Forma Maximum Annual		
Debt Service Coverage	4.46x	3.62x

<sup>1</sup> Interest on the Series 2005 Bonds is calculated at an assumed rate of 3.50% per annum, and is not calculated in accordance with the Master Trust Indenture.

### Historical and Pro Forma Capitalization

The following table sets forth the historical capitalization of the Hospital as of June 30, 2003 and 2004, and the pro forma capitalization of the Hospital as of June 30, 2004, and assuming the issuance of the Series 2005 Bonds and refinancing of the Series 1995 Bonds with proceeds of the Series 2005 Bonds. Dollars are in thousands.

	Fiscal Years Ended June 30,		
	2003	2004	2004 Pro Forma
Long-term debt, less current installments	\$50,222	\$48,673	\$56,493
Unrestricted Net Assets	<u>109,176</u>	<u>120,823</u>	<u>120,823</u>
Total Capitalization	\$159,398	\$169,496	\$177,316
Long-Term Debt to Capitalization	31.51%	28.72%	31.86%

### MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATIONS

The Hospital has consistently generated positive income from operations and continues to show strong financial performance. However, during fiscal 2004 the Hospital realized a loss from operations. This is primarily due to depreciation and interest attributable to major investments in the Hospital's facilities and information technology (IT). Capital expenditures related to IT have shorter useful lives (three to five years), which significantly increases depreciation expense in the years directly following implementation. Additionally, the Statement of Financial Accounting Standards No. 87 pension expense increased approximately \$2.6 million in 2004 primarily due to the market decline of investments in the pension fund. As the market starts to recover, the Statement of Financial Accounting Standards No. 87 pension expense is expected to decline after the spike in 2004. Maintaining liquidity and reasonable debt levels have been a focus of the Hospital in managing the balance sheet, although the Hospital has used debt effectively to finance major projects.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

As with many similar providers, the Hospital's average length of stay has declined from 3.84 days to 3.55 days over the last three years. Inpatient discharges have fluctuated slightly over the past three years, while outpatient units of service have continued to increase. The Hospital's emergency room continues to be one of the busiest in the State, and the medical oncology services continue to grow significantly with the addition of a new oncologist/hematologist.

The economic condition of Marion has weakened over the past few years but is on its way to recovery. In March 2004, Thomson Multimedia announced the closing of their 1,800 employee picture tube manufacturing facility in Marion. This was coupled with several other businesses cutting back on staff over the past several years. The State, County, and City worked together to secure the building of two distribution centers in Grant County for Wal-Mart and Dollar General Corporation. These distribution centers are expected to add over 1,100 jobs in the next two years. In addition, other new businesses opened or expected to open in 2005 include two call centers, a software development firm, a paper plate manufacturer, an ethanol plant, and a retail center with Starbucks as the anchor store.

As announced in Grant County Economic Growth Council's annual report, 80 firms invested over \$207 million in new buildings and equipment in 2004 in the County. These firms range from long time residents to new firms. Indiana Wesleyan University (IWU) broke ground on an \$8,000,000 Adult and Professional Studies Building as part of the IWU expansion plan that is expected to double enrollment and add 300 new jobs. In addition, Ivy Tech College will begin construction of a new 85,000 square foot facility on its Marion campus in Spring 2006.

The Hospital has been affected by the weakened economy and is responding. An overall focus on reducing expenses is in effect; Hospital full-time equivalents have decreased by approximately 105 over the past year and overtime has been reduced approximately 24.5%. With the focus on cost reduction, the Hospital's operating margin is approximately \$2.4 million better than budget for 2005. As health insurance costs for the Hospital's employees have increased significantly over the years, plan changes are being developed to reduce the impact on the Hospital in future years. In addition, by refinancing the Series 1995 Bonds, the Hospital will realize long-term savings on interest expense.

The Hospital's strategic initiatives for 2005 have resulted in the expansion of new services in Gas City, Indiana, which include occupational health, diagnostics, primary care and internal medicine services; the opening of the acute rehabilitation unit in June 2005; and, the opening of a community-based indigent clinic in June 2005. In addition, plans have been developed to enhance and expand advanced cardiac/peripheral vascular/radiological services and to develop women's specialized health services (e.g., the Regional Pelvic Floor Institute) in 2006. The strategic initiatives for 2006 include expanding services in secondary markets, increasing collaboration with physicians, developing Hospitalist services, and improving wellness in Grant County.

The Board of the Hospital is well-informed regarding the financial condition of the Hospital. The Board monitors four key financial ratios to provide a method of measuring the Hospital's current and projected financial performance. The key ratios are (1) Debt Service Coverage, (2) Days Cash On Hand, (3) Capitalization, and (4) Operating Margin. The Board's policy is to meet and/or exceed the Bond Rating Agency medians for hospitals rated in the "A+" category. These ratios are comprehensive and address debt levels, cash reserves and profitability. Numerous other ratios are monitored and presented to the Board when the annual Strategic Financial Plan is updated and when quarterly financial statements are provided.

*Capitalized terms used, but not defined, in this Appendix A are defined in the forepart of this Official Statement and in **Appendix C** to this Official Statement.*

## **APPENDIX B**

### **AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE BORROWER**



(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**MARION GENERAL HOSPITAL, INC.  
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



**KPMG LLP**  
2400 First Indiana Plaza  
135 North Pennsylvania Street  
Indianapolis, IN 46204-2452

## **Independent Auditors' Report**

The Board of Directors  
Marion General Hospital, Inc. and subsidiary:

We have audited the accompanying consolidated balance sheets of Marion General Hospital, Inc. and subsidiary (Hospital) as of June 30, 2004 and 2003, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marion General Hospital, Inc. and subsidiary as of June 30, 2004 and 2003, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

January 14, 2005

**MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

June 30, 2004 and 2003

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Current assets:		
Cash and cash equivalents	\$ 12,982,366	9,048,815
Assets limited as to use – required for current liabilities	4,065,981	3,533,026
Accounts receivable:		
Patient services, net	16,408,484	15,116,783
Physician practices, net	502,208	426,531
Other	3,435,926	1,369,870
Accrued interest	6,793	15,416
Inventories	420,384	286,638
Estimated third-party settlements	617,774	159,933
Current portion of notes receivable	692,702	698,566
Prepaid expenses	1,139,857	1,298,017
Total current assets	<u>40,272,475</u>	<u>31,953,595</u>
Assets limited as to use or restricted:		
Under indenture agreements – funds held by trustee,		
less current portion	3,701,326	12,040,226
By board of directors	68,966,208	63,449,122
Other restricted assets	48,142	50,284
Total assets limited as to use or restricted	<u>72,715,676</u>	<u>75,539,632</u>
Property and equipment, net	<u>77,543,921</u>	<u>73,628,485</u>
Other assets:		
Investment in joint ventures	4,467,325	1,772,602
Unamortized bond issuance costs	1,890,480	2,014,788
Notes receivable, net	1,325,925	927,313
Other assets	541,032	711,827
Total other assets	<u>8,224,762</u>	<u>5,426,530</u>
Total assets	<u>\$ 198,756,834</u>	<u>186,548,242</u>

See accompanying notes to consolidated financial statements.

<b>Liabilities and Net Assets</b>		<b>2004</b>	<b>2003</b>
Current liabilities:			
Current installments of long-term debt	\$	1,080,000	1,265,000
Accounts payable		4,257,130	1,881,080
Accrued liabilities:			
Salaries and related liabilities		6,850,523	4,699,789
Interest		1,392,975	1,449,380
Other		1,102,994	1,086,843
Total current liabilities		14,683,622	10,382,092
Long-term debt, less current installments		48,673,487	50,222,475
Pension liability		12,230,269	14,308,508
Other		2,298,640	2,409,060
Total liabilities		77,886,018	77,322,135
Net assets:			
Unrestricted		120,822,674	109,175,824
Temporarily restricted		37,987	40,128
Permanently restricted		10,155	10,155
Total net assets		120,870,816	109,226,107
Total liabilities and net assets		\$ 198,756,834	186,548,242

**MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY**

Consolidated Statements of Operations

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Unrestricted revenue and support:		
Net patient service revenue	\$ 107,288,346	98,789,479
Other revenue, net	2,956,451	3,044,291
Net assets released from restrictions used for operations	<u>2,141</u>	<u>6,459</u>
Total revenue and support	<u>110,246,938</u>	<u>101,840,229</u>
Expenses:		
Salaries and wages	40,781,159	40,351,241
Employee benefits	15,658,897	11,457,603
Physician services	3,518,066	2,989,010
Professional services	3,556,780	3,238,079
Medical supplies	8,835,271	8,031,617
Drugs and IV solutions	6,543,645	5,339,799
Food	826,620	790,912
Purchased services	2,219,191	2,438,991
Rent	648,742	734,057
Plant and equipment maintenance	2,996,585	2,872,988
Utilities	1,461,033	1,461,867
Nonmedical supplies	1,881,356	2,124,684
Leased property expenses	823,583	705,348
Other expenses	746,122	988,573
Insurance	580,335	685,109
Interest	1,861,431	1,981,970
Depreciation	9,083,598	8,085,449
Provision for bad debts	<u>8,684,506</u>	<u>4,248,236</u>
Total expenses	<u>110,706,920</u>	<u>98,525,533</u>
Operating income (loss)	(459,982)	3,314,696
Other nonoperating gains:		
Investment income, net	<u>2,751,953</u>	<u>2,925,910</u>
Excess of revenue, support, and gains over expenses	2,291,971	6,240,606
Change in net unrealized gains and losses on investments	3,605,004	477,785
Change in minimum pension liability	<u>5,749,875</u>	<u>(19,436,046)</u>
Increase (decrease) in unrestricted net assets	<u>\$ 11,646,850</u>	<u>(12,717,655)</u>

See accompanying notes to consolidated financial statements.

**MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY**

## Consolidated Statements of Changes in Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Unrestricted net assets:		
Excess of revenue, support, and gains over expenses	\$ 2,291,971	6,240,606
Change in net unrealized gains and losses on investments	3,605,004	477,785
Change in minimum pension liability	<u>5,749,875</u>	<u>(19,436,046)</u>
Increase (decrease) in unrestricted net assets	11,646,850	(12,717,655)
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	<u>(2,141)</u>	<u>(6,459)</u>
Increase (decrease) in net assets	11,644,709	(12,724,114)
Net assets at beginning of year	<u>109,226,107</u>	<u>121,950,221</u>
Net assets at end of year	<u>\$ 120,870,816</u>	<u>109,226,107</u>

See accompanying notes to consolidated financial statements.



# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 11,644,709	(12,724,114)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	9,083,598	8,085,449
Amortization of bond issue costs and bond discount	185,320	184,303
Provision for bad debts	8,684,506	4,248,236
Loss on disposal of property and equipment	57,127	27,772
Investment return, net	(6,356,957)	(3,403,695)
Changes in assets and liabilities:		
Accounts receivable	(12,117,940)	(8,128,101)
Accrued interest, inventories, and prepaid expenses	33,037	(764,476)
Prepaid pension costs	—	4,751,625
Pension liability	(2,078,239)	14,308,508
Accounts payable and accrued liabilities	4,376,111	917,314
Estimated third-party settlements	(457,841)	(1,394,609)
Net cash provided by operating activities	<u>13,053,431</u>	<u>6,108,212</u>
Cash flows from investing activities:		
Additions to property and equipment	(13,110,613)	(20,546,280)
Proceeds from sale of property and equipment	54,452	93,389
Proceeds from the sale of investments	31,690,242	86,484,755
Purchases of investments	(23,398,458)	(74,554,454)
Investment in joint venture	(3,000,000)	(95,582)
Dividends received from joint venture	832,245	492,501
Change in notes receivable, net	(392,748)	(37,939)
Net cash used in investing activities	<u>(7,324,880)</u>	<u>(8,163,610)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(1,795,000)	(2,380,000)
Bond issuance costs	—	(43,151)
Net cash used in financing activities	<u>(1,795,000)</u>	<u>(2,423,151)</u>
Net increase (decrease) in cash and cash equivalents	3,933,551	(4,478,549)
Cash and cash equivalents at beginning of year	<u>9,048,815</u>	<u>13,527,364</u>
Cash and cash equivalents at end of year	<u>\$ 12,982,366</u>	<u>9,048,815</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized of \$1,190,786 and \$1,357,351 in 2004 and 2003, respectively	\$ 1,676,111	1,357,030

See accompanying notes to consolidated financial statements.

## MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

#### (1) Organization and Summary of Significant Accounting Policies

##### *(a) Organization and Basis of Consolidation*

The consolidated financial statements include the accounts of Marion General Hospital, Inc. (Hospital), and its wholly owned subsidiary, Professional Arts Pharmacy, Inc. (Pharmacy). The Hospital is a not-for-profit acute care hospital. The Pharmacy is organized as a for-profit enterprise. All significant intercompany balances and transactions have been eliminated in consolidation.

The Hospital provides inpatient and outpatient services primarily to residents from the Grant County area. Expenses related to directly providing these services were 90% of total expenses for the years ended June 30, 2004 and 2003.

##### *(b) Estimates and Uncertainties*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### *(c) Cash and Cash Equivalents*

Cash and cash equivalents consist of a cash management fund and demand deposit accounts, all with an original maturity of three months or less.

##### *(d) Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income, net (including realized gains and losses on investments, interest and dividends) is included in the excess of revenue, support and gains over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue, support and gains over expenses unless the unrealized loss on investment security is considered other-than-temporary.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenue, support, and gains over expenses and a new cost basis for the security is established. Management continually reviews the investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates. For the years ended June 30, 2004 and 2003, the Hospital recorded a provision for other-than-temporary declines in the fair value of \$0 and \$524,047, respectively, related to investments restricted by the board of directors which is recorded in investment income, net in the consolidated statements of operations.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

**(e) Inventories**

Inventories are stated on the weighted average cost method, which approximates market value.

**(f) Assets Limited as to Use or Restricted**

Assets limited as to use include assets set aside by the board of directors for future capital improvements, health insurance and other purposes, over which the Board retains control (subject to any restrictions by Medicare for funds identified as funded depreciation) and may at its discretion subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption.

Restricted assets include assets whose use by the Hospital has been limited by donors to a specific purpose or to be held in perpetuity.

**(g) Property and Equipment**

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method, using a half year convention in the year of acquisition and disposal.

**(h) Unamortized Bond Issuance Costs and Original Issue Discounts**

The costs incurred and capitalized in issuing the Series 2002, Series 1995, Series 1992 and Series 1991 Hospital Revenue Bonds are amortized by the bonds outstanding method over the respective term of each bond series.

The discounts incurred in issuing the Series 2002, Series 1995, Series 1992, and Series 1991 Hospital Revenue Bonds are classified as a reduction to long-term debt and are amortized into interest expense using the effective interest method over the respective term of each bond issue.

**(i) Notes Receivable**

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees. The allowance for uncollectible notes receivable is \$418,501 and \$388,981 at June 30, 2004 and 2003, respectively.

**(j) Temporarily Restricted and Permanently Restricted Net Assets**

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

## MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

Unrestricted donations totaled \$40,648 and \$93,578 for the years ended June 30, 2004 and 2003, respectively, and are included in other revenue.

**(k) *Excess of Revenue, Support, and Gains over Expenses***

The consolidated statements of operations include excess of revenue, support, and gains over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue, support and expenses. Transactions incidental to the provision of patient care services are reported as gains and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, support, and gains over expenses, consistent with industry practice, include unrealized gains and losses on investments in available-for-sale securities, changes in the minimum pension liability, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

**(l) *Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**(m) *Patient Assistance***

The Hospital provides care to patients who meet certain criteria under its patient assistance policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as patient assistance, they are not reported as revenue.

**(n) *Donor-restricted Gifts***

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included with other revenue in the accompanying consolidated financial statements.

**(o) *Pension Plan***

The Hospital has a noncontributory defined benefit pension plan (Plan) covering substantially all employees of the Hospital. The funding policy is to contribute annually at least the minimum contribution required to comply with ERISA regulations.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

**(p) Estimated Malpractice Costs**

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**(q) Income Taxes**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal taxes on related business income pursuant to Section 501(a) of the Code. The Pharmacy is a for-profit enterprise and is subject to income taxes.

**(r) Reclassifications**

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

**(2) Net Patient Services Accounts Receivable**

Net patient services accounts receivable consists of the following as of June 30:

	<u>2004</u>	<u>2003</u>
Gross patient services accounts receivable	\$ 33,362,484	25,633,783
Allowance for estimated contractual adjustments	(11,310,000)	(7,175,000)
Allowance for uncollectible accounts	<u>(5,644,000)</u>	<u>(3,342,000)</u>
Net patient services accounts receivable	<u>\$ 16,408,484</u>	<u>15,116,783</u>

**(3) Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party payment programs represent the differences between the Hospital's billings at standard rates and amounts paid by third-party payors. They also include any differences between estimated third-party settlements for prior years and subsequent final settlements. A summary of the payment arrangements with major third-party payors follows:

**(a) Medicare**

Under the Medicare program, the Hospital receives payment under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average cost, providers may receive additional "outlier" payments. Effective August 1, 2000, a prospective outpatient system was adopted that provides for payment for outpatient services based on service groups called ambulatory payment classifications (APC's).

Effective January 1, 2002, the Hospital's rehabilitative unit became subject to PPS based on the intensity of the services provided to the patient. Previously, rehabilitative units were reimbursed on a cost-based system, subject to certain cost limits.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The Hospital has recorded net patient service revenue of approximately \$320,000 and \$110,000 for Medicare outlier payments for the years ended June 30, 2004 and 2003, respectively. On March 5, 2003, the Centers for Medicare & Medicaid Services (CMS) published a proposed rule that would substantially change the methodology used to determine outlier payments. In addition, CMS increased the outlier cost threshold effective October 1, 2002 which will reduce the number of cases that qualify for outlier payments and the amount of payments for outlier cases that continue to qualify. Accordingly, there can be no assurances that the Hospital will continue to receive these levels of Medicare outlier payments in future periods.

### (b) *Medicaid*

The Hospital is paid for Medicaid inpatient services under a prospectively determined rate per discharge. The differences between standard charges and payments are recorded as contractual adjustments.

Payment for Medicaid outpatient services is based on predetermined rates. Medicaid payments are not subject to retroactive cost-based settlements.

### (c) *Other Payment Arrangements*

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements include prospectively determined rates per discharge and discounts from established rates. Payments from one particular commercial health insurer was in excess of 13% and 12% of gross patient service revenue in 2004 and 2003, respectively.

A summary of net patient service revenue, contractual adjustments and patient service revenue forgone for patient assistance, at standard charges, for the years ended June 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Patient service revenue:		
Inpatient	\$ 75,554,398	78,034,510
Outpatient:		
Ancillary services	113,238,285	91,991,791
Physician practices	5,846,695	5,361,571
Patient assistance	<u>(4,430,710)</u>	<u>(2,972,208)</u>
Patient service revenue	190,208,668	172,415,664
Contractual adjustments	<u>(82,920,322)</u>	<u>(73,626,185)</u>
Net patient service revenue	<u>\$ 107,288,346</u>	<u>98,789,479</u>

The patient assistance write-offs in 2003 are net of payments of approximately \$1,072,000 from the State of Indiana Health Care for the Indigent (HCI) program. The Hospital's policy is to recognize such payments in the period to which they relate. There is approximately \$1,072,000 included in other receivables on the consolidated balance sheets at June 30, 2003 related to the HCI program. In 2004, the HCI program was terminated, and as a result, no amounts related to HCI program were recognized in 2004.

## MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Contractual adjustments in 2004 have been reduced by approximately \$4,053,000 related to the State of Indiana Disproportionate Share Hospital Payment Program (established to assist hospitals which have a disproportionate amount of uncompensated care). No amounts were recognized in fiscal year 2003. The amounts recognized in 2004 relate to uncompensated services that the Hospital provided in fiscal years 2002 and 2003. No amounts have been recognized for uncompensated services that the Hospital provided in fiscal year 2004 as this amount cannot be estimated. There is approximately \$2,744,000 included in other receivables on the consolidated balance sheets at June 30, 2004 related to this program.

#### (4) Third-party Settlements

For the years ended June 30, 2004 and 2003, Medicare gross patient service revenue was approximately \$85,500,000 and \$76,900,000, respectively. Estimated third-party settlements for this program reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year and any differences owing to or by the Hospital after such reports have been audited. At June 30, 2004, Medicare reports have been audited and final settled with the fiscal intermediary through June 30, 2000.

In fiscal year 2004, approximately \$277,000 of additional net patient service revenue was recognized due to an adjustment to third-party settlement estimates related to open cost reports and miscellaneous appeal settlements. In fiscal year 2003, approximately \$1,547,000 of additional net patient service revenue was recognized due to an adjustment to third-party settlement estimates related to open cost reports and miscellaneous appeal settlements.

#### (5) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003 follows:

	2004	2003
Medicare	33%	32%
Commercial insurance	23	25
Patients	23	22
Blue Cross	11	10
Medicaid	10	11
	<u>100%</u>	<u>100%</u>

#### (6) Assets Limited as to Use or Restricted and Long-term Investment

Assets limited as to use include funds held by trustee subject to indenture agreements and assets set aside by the board of directors for future capital improvements, health insurance, and other purposes. All investments are considered available-for-sale.

Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The funds held by trustee subject to indentures consist of the following at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Indiana Health Facility Financing Authority Hospital		
Revenue Bonds, Series 2002:		
Construction fund	\$ 3,959,533	9,581,836
Capitalized interest fund	16,835	1,400,527
Interest fund	773,374	81,526
	<u>4,749,742</u>	<u>11,063,889</u>
Indiana Health Facility Financing Authority Hospital		
Revenue Bonds, Series 1995 – interest fund	<u>491,934</u>	<u>492,886</u>
Indiana Health Facility Financing Authority Hospital		
Revenue Bonds, Series 1992:		
Debt service reserve fund	1,299,341	1,299,341
Interest fund	134,344	159,168
Bond sinking fund	1,091,946	1,039,641
	<u>2,525,631</u>	<u>2,498,150</u>
Indiana Health Facility Financing Authority Hospital		
Revenue Refunding Bonds, Series 1991 A and 1991B:		
Debt service reserve fund	—	1,244,724
Interest fund	—	27,261
Bond sinking fund	—	246,342
	<u>—</u>	<u>1,518,327</u>
Total trustee funds	7,767,307	15,573,252
Less current portion	<u>4,065,981</u>	<u>3,533,026</u>
	<u>\$ 3,701,326</u>	<u>12,040,226</u>

A description and the carrying value of the assets limited as to use by the board of directors are as follows at June 30:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 4,906	5,212
International mutual funds	5,760,362	4,505,709
Mutual funds	63,200,940	58,938,201
Assets limited as to use by board of directors	<u>\$ 68,966,208</u>	<u>63,449,122</u>

In 2004 and 2003, assets limited as to use under indenture agreements and other restricted assets are invested in cash and cash equivalents. In 2004 and 2003, other assets include investments in mutual funds with a market value of \$541,032 and \$711,827, respectively.



# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Investment return for cash and investments are comprised of the following for the years ending June 30:

	<u>2004</u>	<u>2003</u>
Other nonoperating gains:		
Investment income, net:		
Interest and dividends	\$ 2,298,007	3,029,856
Realized losses on sale of investments	(73,022)	(764,943)
Gain on equity in joint ventures	526,968	660,997
	<u>\$ 2,751,953</u>	<u>2,925,910</u>
Unrealized gains (losses):		
Net unrealized gains (losses) on investments	\$ 3,605,004	477,785

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been less than twelve months:

	<u>2004</u>	<u>2003</u>
	<b>Aggregate fair value of investments with unrealized losses</b>	<b>Aggregate fair value of investments with unrealized losses</b>
	<b>Unrealized loss</b>	<b>Unrealized loss</b>
International mutual funds	\$ —	—
Mutual funds	670,148	—
Total	<u>\$ 670,148</u>	<u>—</u>

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been more than twelve months:

	<u>2004</u>	<u>2003</u>
	<b>Aggregate fair value of investments with unrealized losses</b>	<b>Aggregate fair value of investments with unrealized losses</b>
	<b>Unrealized loss</b>	<b>Unrealized loss</b>
International mutual funds	\$ 291,976	1,176,492
Mutual funds	—	2,510,230
Total	<u>\$ 291,976</u>	<u>3,686,722</u>

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

At June 30, 2004, there is one mutual fund for which a continuous unrealized loss position is less than twelve months. The mutual fund market value after June 30, 2004 has increased above its cost, therefore, the decline is considered temporary.

At June 30, 2004, there is one international mutual fund for which a continuous unrealized loss position is more than twelve months. At June 30, 2004, the market value is 91% of the cost and is not considered severe. The market value of the investment after June 30, 2004 has continued to increase. In addition, the Hospital has both the intent and ability to hold this investment until it fully recovers, and considers the decline to be temporary.

### (7) Investment in Joint Ventures

In 1997, the Hospital invested \$937,500 to purchase a 50% ownership in a joint venture which operates an ambulatory surgery center (River View) in Marion, Indiana. In 2004, River View issued additional shares resulting in the reduction of the Hospital's ownership to 48.96%. The Hospital accounts for the investment under the equity method of accounting. As a result, the Hospital recognized a gain of \$621,536 and \$660,997 related to its investment in River View for the years ended June 30, 2004 and 2003, respectively, which is included in investment income, net in the consolidated statements of operations.

The following is the unaudited condensed financial information of River View as of and for the years ending June 30, 2004 and 2003:

		<u>2004</u>	<u>2003</u>
Total assets	\$	3,295,490	3,675,920
Total equity		2,995,186	3,425,594
Total net revenue		5,694,594	5,538,130
Net income		1,269,593	1,293,546

River View entered into a 15-year lease to rent a portion of a medical office building owned by the Hospital. Rent payments received by the Hospital in 2004 and 2003 from River View approximated \$510,000 and \$500,000, respectively, and are reported in other revenue.

In December 2003, the Hospital invested \$3,000,000 to purchase 50% ownership in a joint venture to build and operate a new cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. The building began construction in August 2004. The Hospital accounts for the investment under the equity method of accounting. As a result, the Hospital recognized a gain of \$1,014 related to its investment in Progressive Cancer Center, LLC for the year ended June 30, 2004. This is included in investment income, net in the consolidated statements of operations.

**MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

**(8) Property and Equipment**

Property and equipment and their estimated useful lives are as follows at June 30:

	<u>2004</u>	<u>2003</u>	<u>Range of estimated useful lives</u>
Land	\$ 2,101,744	2,101,744	
Land improvements	1,336,484	1,320,773	10–20 years
Buildings	48,653,702	41,433,799	5–40 years
Medical office buildings	12,723,494	12,723,494	5–40 years
Building service equipment	29,542,661	21,345,999	5–25 years
Fixed equipment	3,516,229	3,234,984	10–20 years
Major movable equipment	52,861,688	41,499,439	3–20 years
Vehicles	693,267	681,982	4 years
	<u>151,429,269</u>	<u>124,342,214</u>	
Less accumulated depreciation	(75,151,760)	(68,150,449)	
Construction in progress	<u>1,266,412</u>	<u>17,436,720</u>	
	<u>\$ 77,543,921</u>	<u>73,628,485</u>	

Construction in progress at June 30, 2004, primarily relates to major construction projects, which include a boiler addition, remodeling nurse's station, as well as clinical information systems software implementation projects. Estimated costs to complete these projects at June 30, 2004, are approximately \$690,000, of which the majority has been contractually committed.

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Investment income earned on unexpended bond proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. A summary of interest cost capitalized for 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Gross interest cost capitalized	\$ 1,190,786	1,357,351
Investment income on borrowed funds held by trustee	<u>(71,672)</u>	<u>(256,270)</u>
	<u>\$ 1,119,114</u>	<u>1,101,081</u>

**MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

**(9) Long-term Debt**

Long-term debt consists of the following at June 30:

	<u>2004</u>	<u>2003</u>
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 2002:		
Serial bonds, payable through July 1, 2013 – interest from 4.0% to 4.5%	\$ 2,425,000	2,425,000
Term bonds with final redemption on July 1, 2019, interest at 5.625%	3,240,000	3,240,000
Term bonds with final redemption on July 1, 2023, interest at 5.25%	2,810,000	2,810,000
Term bonds with final redemption on July 1, 2027, interest at 5.25%	6,530,000	6,530,000
Term bonds with final redemption on July 1, 2032, interest at 5.25%	<u>14,685,000</u>	<u>14,685,000</u>
	29,690,000	29,690,000
Unamortized discount	<u>(622,945)</u>	<u>(652,142)</u>
	<u>29,067,055</u>	<u>29,037,858</u>
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1995:		
Term bonds with final redemption on July 1, 2011, interest at 6.0%	2,285,000	2,285,000
Term bonds with final redemption on July 1, 2016, interest at 6.0%	3,715,000	3,715,000
Term bonds with final redemption on July 1, 2025, interest at 6.1%	<u>10,180,000</u>	<u>10,180,000</u>
	16,180,000	16,180,000
Unamortized discount	<u>(165,384)</u>	<u>(177,155)</u>
	<u>16,014,616</u>	<u>16,002,845</u>
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1992:		
Serial bonds, payable through July 1, 2003 – interest from 5.5% to 5.8%	—	520,000
Term bonds with final redemption on July 1, 2007, interest at 5.5%	<u>4,695,000</u>	<u>5,195,000</u>
	4,695,000	5,715,000
Unamortized discount	<u>(23,184)</u>	<u>(37,973)</u>
	<u>4,671,816</u>	<u>5,677,027</u>

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Indiana Health Facility Financing Authority, Hospital Revenue Refunding Bonds, Series 1991A and 1991B: Term bonds paid in full in 2004	<u>—</u>	<u>775,000</u>
	<u>—</u>	<u>775,000</u>
Unamortized discount	<u>—</u>	<u>(5,255)</u>
	<u>—</u>	<u>769,745</u>
	49,753,487	51,487,475
Less current installments	<u>(1,080,000)</u>	<u>(1,265,000)</u>
	<u>\$ 48,673,487</u>	<u>50,222,475</u>

On May 1, 2002, the Hospital issued \$29,690,000 of revenue bonds, Series 2002, through the Indiana Health Facility Financing Authority, at a discount of \$686,204. The funds are used to finance the construction of a consolidated Intensive Care and Coronary Care Nursing Unit, an addition to the fourth and fifth floors, remodeling of certain units, including the emergency room, and to refinance and retire the Series 1997 bonds. All of the bonds are dated and bear interest from May 1, 2002, with interest payable semiannually on January 1 and July 1. The Series 2002 bonds are further secured through a commercial bond insurance policy.

On April 1, 1995, the Hospital issued \$16,180,000 of revenue bonds, Series 1995, through the Indiana Health Facility Financing Authority, at a discount of \$273,269 to finance the construction of an Ambulatory Care Center. All of the bonds are dated and bear interest from April 1, 1995, with interest payable semiannually on January 1 and July 1. Instead of creating a debt service reserve fund, the Hospital purchased a surety bond in the amount of \$1,505,980, which expires at the earlier of July 1, 2025 or when the Hospital has fulfilled its debt obligation. The Series 1995 bonds are further secured through a commercial bond insurance policy.

On September 15, 1992, the Hospital issued \$13,485,000 of revenue bonds, Series 1992, through the Indiana Health Facility Financing Authority, at a discount of \$380,713 to finance certain capital projects. All of the bonds are dated and bear interest from September 15, 1992, with interest payable semiannually on January 1 and July 1. The Series 1992 bonds are further secured through a commercial bond insurance policy.

On July 1, 1991, the Hospital issued \$12,435,000 of revenue bonds, Series 1991A and Series 1991B (Series 1991), through the Indiana Health Facility Financing Authority, at a discount of \$35,317, to defease Series 1977 and 1983 bonds. All of the bonds are dated and bear interest from July 1, 1991, with interest payable semiannually on January 1 and July 1. The Series 1991 bonds are further secured through a commercial bond insurance policy.

The Hospital granted a security interest in its gross revenue (as defined) as collateral for the Series 2002, 1995, 1992 and 1991 bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The following is a schedule of maturities on long-term debt as of June 30, 2004 for the next five years:

2005	\$	1,080,000
2006		1,140,000
2007		1,205,000
2008		1,270,000
2009		890,000

As of September 30, 2003, the Hospital entered into a \$4,000,000 variable interest line of credit for a one-year term at the prime interest rate. The Hospital did not draw on this line of credit during fiscal year 2004.

### **(10) Pension and Other Benefits**

The Hospital maintains a defined benefit plan (Pension Plan) which covers substantially all employees of the Hospital. The Pension Plan provides retirement, death and disability benefits. The Hospital contributes amounts necessary to provide funds sufficient to meet the benefits to be paid to participants under the Pension Plan.

The Hospital also has a defined benefit health plan (Health Plan) for retirees which provides for health benefits, subject to certain eligibility requirements, from the date of early retirement (but not prior to age 55) to the date the retiree becomes Medicare eligible. This Health Plan also provides for certain coinsurance and deductibles to be paid by the retiree.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The following table sets forth the plans (Pension Plan and Health Plan) change in benefit obligation, change in plan assets, weighted average assumptions as of March 31 for the Pension Plan and June 30 for the Health Plan (Measurement Dates), and components of net periodic benefit cost:

	<b>Pension benefits</b>		<b>Health plan benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 55,150,627	44,348,406	2,314,654	1,816,453
Service cost	1,798,374	1,383,774	319,117	237,784
Interest cost	3,381,589	3,143,939	132,134	123,809
Actuarial loss (gain)	3,220,990	8,339,498	152,350	245,350
Benefits paid	(2,220,082)	(2,064,990)	(112,415)	(108,742)
Benefit obligation at end of year	<u>\$ 61,331,498</u>	<u>55,150,627</u>	<u>2,805,840</u>	<u>2,314,654</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 37,217,320	42,545,589	—	—
Actual return (loss) on plan assets	9,172,344	(4,712,445)	—	—
Employer contribution	—	1,449,166	—	—
Benefits paid	(2,220,082)	(2,064,990)	—	—
Fair value of plan assets at end of year	<u>44,169,582</u>	<u>37,217,320</u>	<u>—</u>	<u>—</u>
Funded status	(17,161,916)	(17,933,307)	(2,805,840)	(2,314,654)
Unrecognized net actuarial loss (gain)	19,503,049	24,376,295	301,400	105,270
Unrecognized transition obligation (asset)	—	—	1,047,478	1,122,298
Unrecognized prior service cost	(885,231)	(1,315,450)	—	—
Prepaid (accrued) benefit cost	1,455,902	5,127,538	(1,456,962)	(1,087,086)
Additional minimum liability	(13,686,171)	(19,436,046)	—	—
Accrued liability	<u>\$ (12,230,269)</u>	<u>(14,308,508)</u>	<u>(1,456,962)</u>	<u>(1,087,086)</u>
Weighted average assumptions as of the Measurement Dates:				
Discount rate	5.75%	6.25%	6.25%	6.00%
Expected return on plan assets	8.25	8.25	—	—
Rate of compensation increase	4.00	4.00	—	—

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under the Employee Retirement Security Act of 1974.

# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The Hospital recognized a minimum pension liability at June 30, 2004 as a result of the pension plan being underfunded. The minimum pension liability will change from year to year as a result of revisions to actuarial assumptions, experience gains or losses, and settlement rate changes. The minimum liability is equal to the excess of the accumulated benefit obligation over plan assets. The Hospital has recognized a cumulative minimum pension liability at June 30, 2004 and 2003 of \$13,686,171 and \$19,436,046, respectively, through a direct reduction of unrestricted net assets.

	<b>Pension benefits</b>		<b>Health plan benefits</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Components of net periodic benefit cost:				
Service cost	\$ 1,798,374	1,383,774	319,117	237,784
Interest cost	3,381,589	3,143,939	132,134	123,809
Actual loss (return) on plan assets	(9,172,344)	4,712,445	—	—
Amortization of transition amount	—	—	74,820	74,820
Amortization of prior service cost	(430,219)	(430,219)	—	—
Amortization of (gain) or loss	1,979,558	404,613	—	(2,038)
Recognized net actuarial (gain) loss	6,114,678	(8,141,299)	—	—
Net periodic benefit cost	\$ <u>3,671,636</u>	<u>1,073,253</u>	<u>526,071</u>	<u>434,375</u>

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004 and 2003. The rate was assumed to decrease gradually to 6% over a 10-year period.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<b>1-Percentage-point increase</b>	<b>1-Percentage-point decrease</b>
Effect on total of service and interest cost components	\$ 40,020	(44,748)
Effect on postretirement benefit obligation	187,756	(173,571)



# MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The pension plan asset target allocation for 2005, as well as the allocation at March 31, 2004, and 2003, by asset category are as follows:

<u>Asset category</u>	<u>Target allocation 2005</u>	<u>Percentage of plan assets at March 31</u>	
		<u>2004</u>	<u>2003</u>
Equity securities	55-65%	64%	55%
Debt securities	35-45%	35	44
Real estate	0-0%	—	—
Other	0-0%	1	1
Total		<u>100%</u>	<u>100%</u>

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This committee meets on a bi-monthly basis and makes periodic changes to the policy. The approved investment structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. Investment managers are reviewed on an ongoing basis.

The Hospital expects to contribute approximately \$2,700,000 to the pension plan in fiscal year 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the pension plan:

2005	\$	2,143,643
2006		2,264,941
2007		2,467,933
2008		2,658,428
2009		2,889,396
2010 through 2014		3,053,087

### (11) Medical Office Buildings – Operating Leases

The Hospital owns medical office buildings in Gas City, Indiana; Swayzee, Indiana; and in Marion, Indiana and leases the buildings to physicians, physician groups and others under various operating leases. Lease rental income of \$1,039,798 and \$980,621 is included in other revenue for the years ended June 30, 2004 and 2003, respectively.

## MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

The Hospital is scheduled to receive future minimum rental payments under these lease agreements for the next five years:

2005	\$	883,531
2006		757,100
2007		661,777
2008		548,081
2009		508,442

#### (12) Lease Obligations

The Hospital leases various equipment under noncancelable operating leases expiring in various years through 2009. Total rental expense amounted to approximately \$365,000 and \$364,000 for 2004 and 2003, respectively. Future minimum payments under the operating leases with initial terms in excess of one year as of June 30, 2004 are as follows:

2005	\$	379,156
2006		394,313
2007		343,313
2008		30,313
2009		30,313

#### (13) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments* (SFAS 107), requires disclosure of the fair value of financial assets and liabilities for which it is practicable to estimate. Fair value is defined in SFAS 107 as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Hospital believes the carrying amount of its financial instruments (excluding long-term debt) approximate their fair values due to the relatively short maturity of these instruments. Long-term debt based on quoted market value of similar debt instruments has an aggregate fair value of \$51,390,533 and \$55,816,313 at June 30, 2004 and 2003, respectively.

#### (14) Malpractice Insurance

The Hospital participates in the Indiana Medical Malpractice Act which limits the maximum recovery for medical malpractice claims to \$1,250,000 per occurrence, of which, the first \$250,000 is the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund. The Hospital maintains malpractice insurance coverage for the \$250,000 deductible. Prior to October 1, 2002, the Hospital malpractice insurance coverage was under an occurrence basis policy.

## MARION GENERAL HOSPITAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

June 30, 2004 and 2003

As of October 1, 2002, the Hospital malpractice insurance coverage changed to a claims-made policy which includes coverage for all claims incurred prior to October 1, 2002 that were not reported to the previous insurance carrier. This previous insurance carrier, which provided coverage through September 30, 2002, is insolvent and the Hospital does not expect this carrier to be able to pay claims for contracted coverage limits. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has estimated the ultimate costs, if any, of the settlement of such claims based on estimates of each known cost as well as historical data. In management's opinion, an adequate reserve for loss contingencies is established at June 30, 2004 and 2003.

#### **(15) Related-party Transactions**

The Hospital has entered into various agreements in the normal course of business for legal and other services with companies for which certain officers of these companies are also members of the Hospital board of directors.

#### **(16) Commitments and Contingencies**

##### ***(a) Regulatory Investigations***

The U.S. Department of Justice, the Internal Revenue Service and other Federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Hospital's financial position or results of operations.

##### ***(b) Legal Matters***

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position or results of operations of the Hospital.

## **APPENDIX C**

### **SUMMARY OF THE PROVISIONS OF THE PRINCIPAL DOCUMENTS (including definitions)**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## **APPENDIX C**

### **SUMMARY OF PRINCIPAL DOCUMENTS (INCLUDING DEFINITIONS)**

#### **DEFINITIONS OF CERTAIN TERMS**

The following are definitions of certain terms used in the Master Indenture, the Bond Indenture, the Supplemental Master Indenture No. 8, the Loan Agreement and this Official Statement. Capitalized terms used herein and not defined relating to ARS or to auction procedures shall have the meanings set forth in Appendix C.

"Accounts" shall mean, collectively, all accounts (as defined in the UCC), accounts receivable, other receivables, contracts, contractual rights, tax refunds or other obligations or indebtedness owing to any Obligated Issuer of any kind or description, secured or unsecured, now or hereafter existing, whether or not arising out of or in connection with the payment for goods sold or leased for services rendered, whether or not earned by performance, and all sums of money or other proceeds due or not earned by performance, all sums of money or other proceeds due or becoming due thereon, together with all rights now or hereafter existing under guarantees and collateral security therefore and under leases and other contracts securing, guaranteeing or otherwise relating to any of the foregoing, including without limitation (a) all rights to receive any performance or any payments in money or in kind; (b) all right, title and interest in and to the goods, services or other property that give rise to or that secure any of the foregoing, and insurance policies and proceeds thereof relating thereto; (c) all rights as an unpaid seller of goods and services including, without limitation, all rights or stoppage in transit, replevin, reclamation and resale; (d) all rights to receive any Medicare/Medicaid Receivables or rights to payments under any other federal programs or state and local governmental programs providing for the payment of or reimbursement for services rendered, and private insurance program (including without limitation, Blue Cross and prepaid health organizations, including health maintenance organizations or preferred provider organizations), in each case only to the extent permitted under applicable law; (e) reversionary interest in pension and profit-sharing plans, and reversionary, beneficial and residual interest in trusts, credits with and any other claims against any Person; and (f) all ledger sheets, files, records and documents relating to any of the foregoing, including all computer records, programs, storage media and computer software used or required in connection therewith.

"Additional Indebtedness" shall mean any Indebtedness (including Notes and Guaranties) incurred subsequent to the date of issuance of the Series 2005 Note.

"Alternate Liquidity Facility" means a Liquidity Facility issued to replace a Liquidity Facility to purchase the Bonds other than ARS tendered for purchase as provided in the Bond Indenture.

"Assumed Rate" shall mean an annual rate of interest equal to The Bond Buyer 30 Year Revenue Bond Index most recently published or any successor index in effect at the time such rate must be calculated, or in the event such index or successor index is no longer published, then a comparable index selected in the sole discretion of the Master Trustee.

"Authority" shall mean the Indiana Health and Educational Facility Financing Authority and its successors or assigns.

"Authorized Denominations" means (a) with respect to any Bonds which are subject to a Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof, (b) with respect to any Bonds which are ARS, \$25,000 or any integral multiple thereof, and (c) with respect to any Bonds which are not described in the preceding clause (a) or clause (b), \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

"Balloon Indebtedness" shall mean Indebtedness, 25% or more of the original principal of which matures during any consecutive twelve month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such twelve month period. The foregoing notwithstanding, Balloon Indebtedness does not include (i) Indebtedness which otherwise would be classified under

the Master Indenture as Short-Term Indebtedness, Interim Indebtedness or Put Indebtedness or (ii) Indebtedness which is amortized on a substantially level debt service basis.

"Bank Accounts" shall mean all deposit accounts and shall include, without limitation, all checking, investment or deposit accounts (general or specific, time or demand, provisional or final) at any time maintained by any Obligated Issuer, including without limitation M/M Accounts, and all moneys, securities, instruments, and general intangibles deposited or held herein.

"Bank Bond Rate" means the rate set forth in a Liquidity Facility.

"Bank Bonds" means Bonds purchased by a Liquidity Facility Provider or its assignee pursuant to a Liquidity Facility.

"Basic Agreement" means each of the Bond Indenture, the Bonds and the Borrower Security Agreements.

"BMA Index" means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Bond Market Association ("BMA") or any person acting in cooperation with or under the sponsorship of BMA and acceptable to the Remarketing Agent, and effective from such date.

"Bond Counsel" means Ice Miller or any other attorney at law or firm of attorneys selected by the Borrower and reasonably acceptable to the Authority of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Fund" -- see below under "Source and Application of Funds".

"Bond Indenture" shall mean the Bond Indenture, dated as of July 1, 2005, between the Authority and the Bond Trustee.

"Bond Insurance Policy" shall mean the Financial Guaranty Insurance Policy issued by the Bond Insurer guaranteeing the scheduled payment of the principal of and the interest on the Bonds when due.

"Bond Insurer" shall mean CIGF Assurance North America, Inc.

"Bond Interest Term" means, with respect to any Bond, each period established in accordance with the Bond Indenture during which the Bond bears interest at a Bond Interest Term Rate.

"Bond Interest Term Rate" means, with respect to each Bond (other than ARS), a non-variable interest rate on such Bond established periodically in accordance with the Bond Indenture.

"Bond Purchase Fund" means each such trust fund established with a Tender Agent pursuant to the Bond Indenture.

"Bond Trustee" shall mean J.P. Morgan Trust Company, National Association, or any permitted successor under the Bond Indenture.

"Bondholder," "Holder," "Owner" or "holder" means, as of any time, the registered owner of any Bond as shown in the register kept by the Bond Trustee as bond registrar.

"Bonds" shall mean the Authority's Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project) issued in the aggregate principal amount of \$24,000,000, from time to time Outstanding under the Bond Indenture.

"Book Value" shall mean (i) when used in connection with Property of the Borrower or any other Obligated Issuer, the value of such Property, net of accumulated depreciation, as it is carried on the books of account of such person and in conformity with generally accepted accounting principles and (ii) when used in connection with Property of the Obligated Group, the aggregate of the values so determined with respect to the Property of each member of the Obligated Group.

"Borrower" means Marion General Hospital, Inc., an Indiana nonprofit corporation, and its successors and assigns.

"Borrower Bonds" means the Bonds held by the Tender Agent for and on behalf of the Borrower or any nominee for (or any Person who owns such Bonds for the sole benefit of) the Borrower pursuant to the Bond Indenture and the Tender Agent Agreement.

"Borrower Purchase Account" means each account with that name established within the Bond Purchase Fund pursuant to the Bond Indenture.

"Borrower Representative" means the person or each alternate designated to act for the Borrower by written certificate furnished to the Authority and the Bond Trustee, containing the specimen signature of such person and signed on behalf of the Borrower by the Chairman or Vice Chairman of the Borrower or the President or any Vice President of the hospital operated by the Borrower.

"Borrower Security Instruments" means each of (a) the Loan Agreement, (b) the Series 2005 Note and (c) each of such additional or supplemental notes and other instruments as the Borrower, the Obligated Group or any other Person from time to time may enter into in favor of the Bond Trustee for the purpose of securing or supporting the obligations of the Borrower to pay all or any portion of the Loan Payments or for the purpose of securing all or any portion of the Bonds and as shall be identified as a "Borrower Security Instrument" for the purpose of the Bond Indenture by written agreement of the Borrower and the Bond Trustee, each as from time to time in effect.

"Business Day" means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Indianapolis, Indiana, the City of New York, New York, the city where the Bond Insurer is located or any other municipality in which the principal offices of the Bond Trustee are located.

"Closing Date" means the date of delivery of the Bonds to the Underwriter against payment therefor.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with the regulations thereunder.

"Completion Certificate" means the completion certificate required under the Loan Agreement to be executed by the Borrower with respect to the completion of the Project.

"Completion Indebtedness" shall mean any Long-Term Additional Indebtedness incurred by the Borrower or any other Obligated Issuer for the purpose of financing (i) the improvement, replacement, renovation or substitutions for, or additions to, facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, necessitated by faulty design, damage to or destruction of such facilities or (ii) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been issued or incurred.

"Contract Rights" shall mean all rights of each Obligated Issuer in and to contracts to which any Obligated Issuer is now or shall become a party pursuant to which any Obligated Issuer has the right to perform medical and/or management services and receive payment, reimbursement, insurance proceeds or any other form or manner of compensation, including without limitation, the Medicare and Medicaid reimbursement agreements to which any Obligated Issuer is a party and any and all other agreements and/or arrangements between any Obligated Issuer and a governmental or quasi-governmental entity pursuant to which any Obligated Issuer provides such healthcare services and receives any form of payment, and any other agreements pursuant to which any Obligated Issuer provides healthcare services on a reimbursed, capitated or other form of payment arrangement.



"Conversion" means a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Bond Indenture.

"Conversion Date" means the effective date of a Conversion of the Bonds.

"Co-Trustee" means any co-trustee appointed by the Bond Trustee pursuant to the provisions of the Bond Indenture.

"Daily Interest Rate" means a variable interest rate for the Bonds established in accordance with the Bond Indenture.

"Daily Interest Rate Period" means each period during which a Daily Interest Rate is in effect for the Bonds.

"Debt Service Coverage Ratio" shall mean the ratio for the fiscal year in question of Net Income Available for Debt Service to the aggregate maximum annual scheduled debt service (taking into consideration the mandatory sinking fund redemption payments or deposits but excluding any requirement to pay principal or interest on any obligation to the extent that irrevocable deposits sufficient to pay such principal or interest have been made) of the Borrower and each other Obligated Issuer on Long-Term Indebtedness for any succeeding fiscal year, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles with the elimination of material inter-company balances and transactions; provided, however, that for purposes of calculating such ratio:

- (i) the interest for any Long-Term Indebtedness with an interest rate, which changes from time to time during the term thereof and which cannot at the date of such calculation be determined for the period under consideration, shall be calculated as if the interest rate on such Long-Term Indebtedness were the Assumed Rate; and

- (ii) the principal and interest due on Balloon Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness;" and

- (iii) the principal and interest due on Interim Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness;" and

- (iv) the principal and interest due on Put Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness."

"Debt Service Reserve Fund" – see below under "Source and Application of Funds".

"Default" means any Event of Default or any event or condition which, with the passage of time or giving of notice or both, would constitute an Event of Default.

"Depository Institution" shall mean any financial institution which enters into a depository agreement with any Obligated Issuer and the Bond Trustee.

"DTC" means The Depository Trust Company, New York, New York.

"Event of Default" -- see below under "Events of Default and Remedies."

"Excluded Property" shall mean that property of the Borrower and any other Obligated Issuer which is not subject to the restrictions and limitations contained in the Master Indenture on the transfers of assets and the creation of liens on assets as set forth in Exhibit B to the Master Indenture.

"Expense Fund" -- see below under "Sources and Application of Funds."

"Federal Securities" shall mean

(a) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America (the "United States Obligations"); or

(b) any certificates or other evidences of ownership interest in obligations of the character described in (i) or in specified portions thereof issued by a member firm of the National Association of Securities Dealers or by a commercial bank having a combined capital and surplus of not less than \$100,000,000, including, without limitation, portions consisting solely of the principal thereof or solely of the interest thereon, provided (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; or

(c) obligations of any state of the United States or any political subdivision thereof (the "Municipal Obligations"), the full payment of principal of, premium, if any, and interest on which are provided for by an Irrevocable Deposit of United States Obligations provided (a) such investment is permitted by applicable law, (b) such United States Obligations are held by an escrow agent or trustee, (c) such United States Obligations are not available to satisfy any other claim including those of the trustee or escrow agent, (d) the Municipal Obligations are not redeemable prior to maturity thereof or the trustee for such Municipal Obligations has been given irrevocable instructions concerning the calling and redemption and has irrevocably waived the right to redeem such obligations at any other time, (e) the principal of and interest on the United States Obligations (together with any cash in the escrow) are sufficient to meet the liabilities of the Municipal Obligations; and (f) such Municipal Obligations are rated in the highest rating categories by a Rating Agency.

"Fitch" means FitchRatings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Bond Trustee.

"Fund" means any of the Project Fund, the Bond Fund, the Expense Fund and the Bond Purchase Fund.

"General Intangibles" shall mean the right to use all general intangibles (as such term is defined in Section 9.1-102(42) of the UCC) of any Obligated Issuer including, without limitation, trademarks, copyrights, patents, contracts, licenses, and franchises, trade names, computer programs and other computer software, inventions, designs, trade secrets, goodwill, proprietary rights, customer lists, supplier contacts, sale orders, correspondence and advertising materials.

"Gross Revenues" shall mean all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Borrower and each other Obligated Issuer and any state with respect to Medicaid, the Borrower and each other Obligated Issuer and third-party insurers of any patients of the Borrower and each other Obligated Issuer, and the Borrower and each other Obligated Issuer and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof), general intangibles, documents and instruments, which are now owned or hereafter acquired by the Borrower and each other Obligated Issuer, and all proceeds therefrom, whether cash or noncash, and which are derived by the Borrower and each other Obligated Issuer from the conduct of all or any part of their respective operations, and all revenue and income of the Borrower and each other Obligated Issuer from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Borrower and each other Obligated Issuer from any source, but excluding only Restricted Moneys of the Borrower and the other Obligated Issuers.

"Guaranty" shall mean, when used in connection with a particular person, all obligations of such person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other person (the "primary obligor") in any manner, whether directly or indirectly, including, but not limited to, obligations incurred through an agreement, contingent or otherwise, by such person:

- (i) to purchase such indebtedness or obligation or any Property or assets constituting security therefor;

- (ii) to advance or supply funds:

- (A) for the purchase or payment of such indebtedness or obligation, or

- (B) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

- (iii) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or

- (iv) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof;

provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (V) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (W) the discount or sale with recourse of any such person's notes receivable or accounts receivable, (X) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, and (Y) payments required to be deposited into any reserve funds pursuant to the provisions of any Related Bond Indenture.

"Indebtedness" shall mean any indebtedness of a Person for the repayment of borrowed money, any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee, installment purchase contracts and guarantees of indebtedness) which are shown as a liability on the balance sheet of such Person or which are properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness evidenced by Notes issued under the Master Indenture and indebtedness not evidenced by Notes issued under the Master Indenture).

"Independent Consultant" shall mean a firm (i) which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of the Borrower or any other Obligated Issuer, or a subsidiary of either, or an employee, director or elected official of any Related Issuer and (ii) which shall be appointed by the Borrower or any other Obligated Issuer, shall be satisfactory to the Master Trustee and shall be qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the members of the Obligated Group and which shall have a favorable national reputation for skill and experience in the financial affairs of such facilities.

"Interest Accrual Date" with respect to the Bonds other than ARS means: (a) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (b) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month; (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date; and (d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

"Interest Payment Date" means: (a) with respect to the Bonds other than ARS, (i) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next

succeeding Business Day; (ii) for any Daily Interest Rate Period, the first Business Day of the next succeeding calendar month; (iii) for any Long-Term Interest Rate Period, each July 1 and January 1, or if any July 1 or January 1 is not a Business Day, the next succeeding Business Day; (iv) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term; (v) for each Interest Rate Period, the day next succeeding the last day thereof; and (vi) for Bank Bonds, each July 1, October 1, January 1 and April 1, or if any July 1, October 1, January 1 or April 1 is not a Business Day, the next succeeding Business Day, and on any day on which Bank Bonds are remarketed; and (b) with respect to the Bonds which are ARS, each ARS Interest Payment Date.

"Interest Rate Agreement" shall mean an interest rate exchange, hedge or similar agreement, expressly identified in an Officer's Certificate of the Obligated Group Representative delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g. a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. The long-term credit rating of the provider of an Interest Rate Agreement must be in one of the two highest rating categories of any rating agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise) or at least as high as that of the Obligated Group."

"Interest Rate Period" means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or ARS Interest Rate Period.

"Interim " shall mean when used in connection with Indebtedness incurred in anticipation of the issuance of additional Long-Term Indebtedness, as provided in the Master Indenture.

"Liquidity Facility" means a letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement by a Liquidity Facility Provider to provide liquidity support to pay the Tender Price of the Bonds (other than ARS) tendered for purchase in accordance with the provisions of the Bond Indenture and any Alternate Liquidity Facility delivered pursuant to the terms of the Bond Indenture.

"Liquidity Facility Provider" means the provider of a Liquidity Facility, and its successors and permitted assigns and, upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Liquidity Facility, their successors and assigns. If any Alternate Liquidity Facility is issued by more than one bank, financial institution or other Person, notices required to be given to the Liquidity Facility Provider may be given to the bank, financial institution or other Person under such Alternate Liquidity Facility appointed to act as agent for all such banks, financial institutions or other Persons.

"Liquidity Facility Purchase Account" means each account with that name established within the Bond Purchase Fund pursuant to the Bond Indenture.

"Loan Agreement" shall mean the Loan Agreement, dated as of July 1, 2005, between the Borrower and the Authority and any amendments and supplements thereto.

"Loan Payment" means a payment by the Borrower pursuant to the Series 2005 Note of amounts which correspond to interest, or principal and interest on account of debt service on the Bonds, plus related fees and expenses, all in accordance with the Loan Agreement and the Series 2005 Note.

"Long-Term" shall mean (i) when used in connection with Indebtedness (including Notes) other than Guaranties, Indebtedness having an original maturity greater than one year or renewable at the option of the Borrower or any other Obligated Issuer for a period greater than one year from the date of original issuance thereof, but shall not mean Short-Term Indebtedness or Interim Indebtedness, and (ii) when used in connection with Indebtedness represented by any Guaranty (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), any such Indebtedness; provided, however, that, so long as any such Guaranty shall constitute a contingent liability under generally accepted accounting principles, for the purposes of any covenants in the Master Indenture or any computation provided for therein, the aggregate annual principal and interest payments on any Long-Term Indebtedness represented by such Guaranty shall be deemed to

be equal to 20% of the principal and interest which would be payable annually if Long-Term Indebtedness other than a Guaranty were issued on the date the Borrower or any other Obligated Issuer enters into, or becomes liable in respect of, such Guaranty in an amount equal to the maximum amount of the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty (less any portion of such maximum amount which is attributable to interest or imputed or implicit interest), which Long-Term Indebtedness would mature over a term of 30 years in approximately equal annual payments of principal and interest and would have an interest rate equal to the weighted-average annual interest rate (whether actual, imputed or implicit) payable on the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty; provided, further, if any principal or interest payment is made by the guarantor in connection with such Guaranty within a three year period, then the aggregate annual principal and interest payments on Long-Term Indebtedness represented by such Guaranty shall be treated as Long-Term Indebtedness payable by the Obligated Group for purposes of any covenants in the Master Indenture or any computation provided for therein.

"Long-Term Interest Rate" means a term, non-variable interest rate established in accordance with the Bond Indenture.

"Long-Term Interest Rate Period" means each period during which a Long-Term Interest Rate is in effect.

"Master Indenture" shall mean the Master Bond Indenture, dated as of July 1, 1991, between the Borrower and the Master Trustee, as the same may be amended or supplemented from time to time.

"Master Trustee" shall mean J.P. Morgan Trust Company, National Association (as successor to INB National Bank), or any permitted successor under the Master Indenture.

"Majority of the Bondholders" means the holders of more than 50 percent of the aggregate principal amount of Outstanding Bonds.

"Mandatory Standby Tender" means the mandatory tender of the Bonds pursuant to the Bond Indenture upon receipt by the Bond Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate such Liquidity Facility upon notice. Mandatory Standby Tender shall not include circumstances where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

"Maximum Bank Bond Interest Rate" means the lesser of (a) the rate of 20% per annum and (b) the Maximum Lawful Rate.

"Maximum Bond Interest Rate" means (i) with respect to ARS, the lesser of (a) 15% per annum or (b) the Maximum Lawful Rate, and (ii) with respect to the Bonds other than ARS the lesser of (a) 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the Bonds and (b) the Maximum Lawful Rate.

"Maximum Lawful Rate" means the maximum rate of interest on the relevant obligation permitted by applicable law.

"Medicaid" shall mean the Medicaid program as established pursuant to the Social Security Act (42 U.S.C. 1935 et seq. and related statutes) any successor, replacement or related program.

"Medicare/Medicaid Receivables" shall mean all accounts and other rights to payment now or at any time hereafter owing, and all reimbursements now or hereafter due, whether directly or indirectly through an intermediary, from the United States Health Care Financing Administration, the United States Department of Health and Human Services, any other governmental authority, or any other Person in connection with Medicare and Medicaid, the Civilian Health and Medical Program of the Uniform Services and the Civilian Health and Medical Program of the Veterans' Administration."

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Bond Trustee.

"M/M Account" shall mean a deposit account with a Depository Institution to which all payments with respect to Medicare/Medicaid Receivables are remitted.

"Mortgage" shall mean any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property other than the mortgages, security interests, liens, charges and encumbrances either (i) listed in Exhibit A to the Master Indenture, (ii) created solely by and among members of the Obligated Group, (ii) granted in favor of the Master Trustee to secure solely the performance of all obligations under the Master Indenture, including the pledge of Gross Revenues, or (iv) on a parity with or subordinate to a lien granted to the Master Trustee to secure the performance of obligations under the Master Indenture.

"Mortgage Indebtedness" shall mean Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) secured by a Mortgage other than a Mortgage securing Project Indebtedness.

"Mortgaged Property" shall mean Property that is subject to a Mortgage other than a Mortgage securing Project Indebtedness.

"Net Income Available for Debt Service" shall mean, as to any period of time, the amount, if any, by which gross revenues (less deductions from Gross Revenues) and nonoperating revenue (excluding income from irrevocable deposits) of the Borrower and each other Obligated Issuer exceeds Total Expenses of the Borrower, and each other Obligated Issuer other than depreciation, amortization and interest, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles, with the elimination of material inter-company balances and transactions; provided, however, that no determination thereof shall take into account (i) any gain or loss resulting from the extinguishment of Indebtedness, (ii) any gain or loss resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business or (iii) any net profit of any insurance subsidiary.

"Net Patient Service Revenues" shall mean net patient service revenues of the Borrower and each other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied with the elimination of material inter-company balances and transactions.

"Note" or "Notes" shall mean any Note or Notes issued, authenticated and delivered under the Master Indenture.

"Obligated Group" shall mean the Borrower and each other Obligated Issuer if any.

"Obligated Group Representative" shall mean the Administrator or any Assistant Administrator of the Borrower, or any other duly authorized officer of the Borrower which has been empowered to act in such capacity by action of the governing body of the Borrower.

"Obligated Issuer" shall mean (i) the Borrower or (ii) any other person which has become an Obligated Issuer under the Master Indenture in accordance with the provisions of the Master Indenture.

"Operating Assets" shall mean any or all land, leasehold interests, buildings, machinery, furniture, fixtures, equipment, hardware, supplies and inventory of, or to be acquired by, the Borrower and each other Obligated Issuer, whether separately or together with other such assets, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied with the elimination of material inter-company balances and transactions; provided, however, that Operating Assets shall not be deemed to include any unimproved real property or interest therein.

"Opinion of Bond Counsel" shall mean an opinion signed in writing by legal counsel which shall be nationally recognized as an expert in matters pertaining to the validity of obligations of governmental issuers and the exclusions from gross income for federal income tax purposes of interest on such obligations.

"Opinion of Counsel" shall mean an opinion in writing signed by legal counsel who may be an employee of or counsel to the Borrower or any other Obligated Issuer and who shall be satisfactory to the Master Trustee in its reasonable discretion.

"Outstanding Bonds" or "Bonds outstanding" means the amount of principal of the Bonds which has not at the time been paid exclusive of (a) Bonds in lieu of which others have been authenticated pursuant to the Bond Indenture, (b) principal of any Bond which has become due (whether by maturity, call for redemption or otherwise) and for which provision for payment as required in the Bond Indenture has been made and (c) for purposes of any direction, consent or waiver under the Bond Indenture, Bonds deemed not to be outstanding, pursuant to the Bond Indenture; provided that Bonds paid by payments made under the Bond Insurance Policy shall be deemed to be Outstanding Bonds until the Bond Insurer is reimbursed in full.

"Participant" means, with respect to DTC or another Securities Depository, a member or participant in DTC or such other Securities Depository, respectively.

"Paying Agent" means the Bond Trustee or any other paying agent appointed in accordance with the Bond Indenture.

"Payment Date" means each Interest Payment Date or any other date on which any principal of, premium, if any, or interest on any Bond is due and payable for any reason, including without limitation upon any redemption of Bonds pursuant to the Bond Indenture.

"Payment Obligations" means the payment obligations of the Borrower pursuant to any Liquidity Facility, including any interest, fees, costs and other similar amounts required to be paid by the Borrower pursuant to any such obligation.

"Person" means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

"Principal Office" when used with respect to the Bond Trustee, means the designated corporate trust office of the Bond Trustee, currently located in Indianapolis, Indiana and when used with respect to the Tender Agent, the Paying Agent, the registrar and the Remarketing Agent, means the respective offices thereof designated in writing to the Bond Trustee unless, in the case of the Paying Agent and the registrar, the Bond Trustee is performing such functions, in which case it shall mean the corporate trust operations office of J.P. Morgan, National Association, in Dallas, TX.

"Project" shall mean the health facility property described in Exhibit A to the Loan Agreement, including the 2005 Project.

"Project Fund" – see below under "Source and Application of Funds".

"Project Indebtedness" shall mean any Indebtedness secured by a Mortgage, liability for which is effectively limited to the Property subject to such Mortgage and to revenues from such Property with no recourse, directly or indirectly, to any other Property or Gross Revenues (other than revenues from such Property) of the Borrower or any other Obligated Issuer but with recourse, directly or indirectly, only to the Property secured by such Mortgage and the revenues therefrom; provided, however that such Property shall not be Property the acquisition, construction or installation of which has been financed by outstanding Unsecured Indebtedness.

"Property" shall mean, when used in connection with a particular person, any and all rights, title and interests of such person in and to any and all property, whether real or personal, tangible or intangible (including Gross Revenues), and wherever situated.

"Purchase Contract" means the Bond Purchase Agreement among the Borrower, the Authority and the Underwriter relating to the Bonds.

"Put Indebtedness" shall mean Indebtedness which is payable or required to be purchased or redeemed, at the option of the holder thereof, prior to its stated maturity or which secures Related Bonds which are so payable or required to be purchased or redeemed.

"Qualified Investments" means investments identified in Exhibit B to the Bond Indenture.

"Rating Agency" means, as of any date, each of Moody's, if the Bonds are then rated by Moody's, Fitch, if the Bonds are then rated by Fitch, and S&P, if the Bonds are then rated by S&P.

"Rating Category" shall mean the generic securities rating category of a nationally recognized rating agency without regard in the case of a long-term rating category to any refinement or gradation of such long-term rating category by numerical modifier or otherwise.

"Rebate Fund" – see below under "Source and Application of Funds".

"Refunded Bonds" means the Authority's outstanding Hospital Revenue Bonds, Series 1995 (Marion General Hospital Project).

"Refunding Indebtedness" shall mean any Long-Term Additional Indebtedness issued for the purpose of refunding any principal and/or interest of any outstanding Long-Term Indebtedness.

"Reimbursement Amounts" means all amounts owing to the Bond Insurer on account of payments by the Bond Insurer under the Bond Insurance Policy.

"Related Bond Indenture" shall mean any indenture pursuant to which a series of Related Bonds are issued or any supplement to a Related Bond Indenture pursuant to which a series of Related Bonds are issued.

"Related Bonds" shall mean obligations issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or any agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to or for the benefit of (i) the Borrower or any other Obligated Issuer in consideration of the execution, authentication and delivery of a Note or Notes to such governmental issuer or related bond trustee or (ii) any person other than the Borrower or any other Obligated Issuer in consideration of issuance to such governmental issuer or trustee for such obligations (A) by such person of any indebtedness or other obligation of such person and (B) by the Borrower or any other Obligated Issuer of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

"Related Issuer" shall mean the governmental issuer of any issue of Related Bonds.

"Related Rights" shall mean all tangible chattel paper, documents and/or instruments relating to the Accounts, the General Intangibles, the Gross Revenues, the Contract Rights, and the Bank Accounts and all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to the Accounts, the Gross Revenues, the Contracts Rights or the General Intangibles or any such chattel papers, documents and/or instruments.

"Remarketing Account" means each account with that name established within a Bond Purchase Fund pursuant to the Bond Indenture.

"Remarketing Agent" means each Person qualified under the Bond Indenture to act as Remarketing Agent for the Bonds other than ARS and appointed by the Borrower with the consent of the Authority from time to time.



"Remarketing Agreement" means a Remarketing Agreement between the Borrower and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent under the Bond Indenture, as amended from time to time.

"Request" means a request by the Tender Agent under a Liquidity Facility or an Alternate Liquidity Facility for the payment of the Tender Price of Bonds in accordance with the terms of the Bond Indenture.

"Reserved Rights" means amounts payable to the Authority under the Loan Agreement and the right of the Authority to receive notices.

"Responsible Officer" means, with respect to the Bond Trustee, any officer or authorized representative in its Principal Office or similar group administering the trusts under the Bond Indenture or any other officer of the Bond Trustee customarily performing functions similar to those performed by any of the above designated officers to whom a particular matter is referred by the Bond Trustee because of such officer's or authorized representative's knowledge of and familiarity with the particular subject.

"Restricted Moneys" shall mean the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to a special object or purpose which precludes the use by an issuer thereof for debt service or for financing the costs, or for paying the operating, maintenance and repair expenses, of facilities operated by an issuer holding or entitled to such proceeds.

"S&P" means Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Bond Trustee.

"Secured Indebtedness" shall mean any Indebtedness secured by a Mortgage.

"Securities Depository" means DTC or, if applicable, any successor securities depository appointed pursuant to the Bond Indenture.

"Series 2005 Note" shall mean the Series 2005 Note issued by the Borrower and dated as of July 1, 2005.

"Short-Term" shall mean, when used in connection with Indebtedness other than Guaranties (including Notes), Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Borrower or any Obligated Issuer for a term greater than one year beyond the date of original issuance.

"Short-Term Interest Rate Period" means each period, consisting of Bond Interest Terms, during which the Bonds bear interest at one or more Bond Interest Term Rates.

"State" shall mean the State of Indiana.

"Subordinated Indebtedness" shall mean Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness (to which appropriate reference shall be made in the instruments evidencing such Indebtedness) substantially as set forth in the Master Indenture.

"Supplemental Master Indenture" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating a particular series of Notes or a particular Guaranty issued under the Master Indenture or amending or supplementing the terms of the Master Indenture.

"Supplemental Master Indenture No. 8" means the Supplemental Master Indenture No. 8, dated as of July 1, 2005, between the Borrower and the Bond Trustee.

"Tender Agent" means each Person qualified under the Bond Indenture to act as Tender Agent with respect to the Bonds other than ARS and so appointed by the Borrower and so acting from time to time, and its successors.

"Tender Agent Agreement" means an agreement among the Borrower, a Remarketing Agent and a Tender Agent whereby such Tender Agent undertakes to perform the duties of the Tender Agent under the Bond Indenture with respect to the Bonds, as amended from time to time.

"Tender Date" means the date on which Bonds are required to be purchased pursuant to the Bond Indenture.

"Tender Price" means the purchase price to be paid to the holders of Bonds purchased pursuant to the Bond Indenture, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Tender Date (if the Tender Date is not an Interest Payment Date); provided, however, that in the case of a Conversion or attempted Conversion from a Long-Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption pursuant to the Bond Indenture if such Conversion did not occur, the Tender Price shall also include the optional redemption premium, if any, provided for such date under the Bond Indenture.

"Total Expenses" shall mean total operating and nonoperating expenses of the Borrower and each other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions.

"Total Revenues" shall mean the sum of Net Patient Service Revenues, other operating revenues and nonoperating revenues of the Borrower and each other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied with the elimination of material inter-company balances and transactions.

"Trust Estate" means the property and other rights assigned by the Authority to the Bond Trustee in the granting clauses of the Bond Indenture.

"Undelivered Bond" means any Bond not delivered or properly endorsed by a Holder given notice of purchase pursuant to the Bond Indenture.

"Underwriter" means Piper Jaffray & Co., as representative of the underwriters under the Purchase Contract.

"UCC" shall mean the Uniform Commercial Code in effect from time to time in the State."

"Unencumbered" shall mean not subject to a Mortgage.

"United States Obligations" means direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which obligations are noncallable.

"Unsecured Indebtedness" shall mean any Indebtedness not secured by any Mortgage.

"Weekly Interest Rate" means a variable interest rate for the Bonds established in accordance with the Bond Indenture.

"Weekly Interest Rate Period" means each period during which a Weekly Interest Rate is in effect for the Bonds.

## **SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE**

### **General**

The Series 2005 Note will be issued pursuant to the Master Indenture. The Master Indenture will entitle each holder of a Note issued thereunder, including the Bond Trustee as holder of the Series 2005 Note, to the protection of the covenants, restrictions and other obligations imposed upon the Borrower contained therein. For the purposes of (i) execution and delivery of any amendment, modification, supplement or change of the Master Indenture, the Series 2005 Note, any Supplemental Indenture, and Loan Agreement, or (ii) the direction or right to consent to any action or remedy to be undertaken by the Authority, the Master Trustee or the Bond Trustee at the Noteholder's request or any other party's request, the Bond Insurer shall, at all times, be deemed the exclusive owner of the Series 2005 Note.

Each Note or series of Notes issued as security for an issue of Related Bonds will contain such provisions for prepayment as will permit prepayment or redemption prior to maturity of such Related Bonds in accordance with their terms. The number of Notes or series of Notes that may be issued by an Obligated Issuer under the Master Indenture is not limited, Indebtedness may be incurred by an Obligated Issuer not evidenced by the Notes, and an Obligated Issuer may in the future issue additional Notes or series of Notes for the purpose of incurring Short-Term, Interim or Long-Term Indebtedness on a taxable or tax-exempt basis, either by private sale or public offering except as prohibited by restrictions on the incurrence of additional Indebtedness described below under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" herein.

The Notes will be absolute and unconditional obligations of the Obligated Group.

### **Restrictions on Mortgages**

Except for a springing mortgage provision contained in Supplemental Master Indenture No. 8 pursuant to which the Borrower has covenanted to execute and deliver a Mortgage on its main facilities in the event certain financial tests are not met, the Borrower and all other Obligated Issuers further agree that they each will not create or suffer to be created or exist any Mortgage upon Property now owned or hereafter acquired by them, without effective provision being made, in each instance and by the instrument creating such Mortgage, whereby each series of Notes and each Guaranty issued and outstanding under the Master Indenture directly secured thereby is equally and ratably secured with the Indebtedness to be issued and secured by such Mortgage, except as follows:

(a) liens arising by reason of good faith deposit with the Borrower or any other Obligated Issuer in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Borrower or any other Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(b) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Borrower, any other Obligated Issuer, an insurance subsidiary of an Obligated Issuer or any other subsidiary of an Obligated Issuer to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits for companies participating in such arrangements;

(c) any judgment lien against the Borrower or any other Obligated Issuer or a subsidiary thereof so long as the finality of such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations of the Obligated Group relating to the Operating Assets;

(d) (1) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right or permit would not materially impair the use of such Property or materially and adversely affect the value thereof or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property, (2) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents or resulting from governmental regulations on the use of Property, and other governmental and similar charges and any liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or the amount or validity of which are being contested and execution thereof is stayed, (3) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, irregularities in the title of any Property which do not materially impair the use of such Property or which do not materially and adversely affect the value thereof, (4) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner which rights do not materially and adversely affect the use of such Property or the value thereof, and (5) to the extent that it affects title to any Property, the Master Indenture;

(e) any liens existing on July 1, 1991, and listed on Exhibit A to the Master Indenture, provided that no such lien may be extended or renewed, or modified to cover additional Property;

(f) any Mortgage securing Project Indebtedness;

(g) encumbrances arising from grants, loans and/or guarantees of the United States of America pursuant to 42 U.S.C. § 291 et seq., and/or 42 U.S.C. § 300 et seq. and other encumbrances arising from grants or loans from, or guarantees of Indebtedness by federal, state and local governments or agencies thereof certified to be similar in nature to the encumbrances described in the first part of this clause (g);

(h) Mortgages, security interests, liens, charges and encumbrances between members of the Obligated Group;

(i) any lease described under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Sale, Lease or Other Disposition of Cash, Securities and Operating Assets" herein;

(j) any lien, encumbrance or security interest created by the Master Indenture;

(k) any other Mortgage of Property (other than Gross Revenues) provided that the Borrower and each other Obligated Issuer shall certify to the Master Trustee that, after giving effect thereto, the aggregate Book Value of Mortgaged Property does not exceed 10% of the aggregate Book Value of the Property of the Obligated Group as reflected on the combined balance sheet for the most recent available fiscal year;

(l) a Mortgage constituting a lien on accounts receivable securing Indebtedness incurred for a sale of accounts receivable; provided that the Borrower and each other Obligated Issuer shall certify in an officer's certificate delivered to the Master Trustee that, after giving effect thereto, the aggregate principal amount of Indebtedness subject to such Mortgages will not exceed 35% of the Total Revenues of the Obligated Group as reflected on the audited financial statements for the most recent available fiscal year; and

(m) a Mortgage on any Excluded Property.

### **Permitted Additional Indebtedness**

The Borrower and each other Obligated Issuer may only incur the following Indebtedness:

(a) Long-Term Indebtedness, including Notes and Guaranties, provided that the Borrower and each other Obligated Issuer shall certify to the Master Trustee:

(i) the use or uses and estimated cost of the facilities, if any, to be financed with such Long-Term Indebtedness (if other than a Guaranty); and

(ii) that either

(A) the Debt Service Coverage Ratio, after giving effect to the issuance of the Long-Term Indebtedness then proposed to be issued, for each of the two most recent fiscal years for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, is at least 1.25 as shown in a report of a firm of independent certified public accountants acceptable to the Master Trustee in its reasonable discretion; or

(B) the Debt Service Coverage Ratio for each of the two most recent fiscal years for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, is at least 1.25 as shown in a report of independent certified public accountants acceptable to the Master Trustee in its reasonable discretion and (w) the Debt Service Coverage Ratio for each of the two fiscal years beginning after the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness (if other than a Guaranty) will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for each of the two fiscal years beginning after the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least 1.35; as shown in a certificate of the Obligated Group Representative; provided, however, that if the Debt Service Coverage Ratio for each of the two fiscal years described in subsection (B)(w), is less than 2.00, an Independent Consultant (the findings of which may be based insofar as they relate to historical financial statements, upon a report or opinion of a firm of independent certified public accountants acceptable to the Master Trustee in its reasonable discretion) must confirm such certificates; provided, further, that the requirements of this foregoing subsection (B)(v) or (w), as the case may be, shall be deemed satisfied if the Master Trustee receives a report of an Independent Consultant (which report is acceptable to the Master Trustee) indicating that (x) applicable laws or regulations have prevented the Obligated Group from generating the Net Income Available for Debt Service required to be generated under (B)(v) or (w), as the case may be, (y) the rates being charged or to be charged by the Obligated Group are or will be such that, in the opinion of such Independent Consultant, the Obligated Group is generating the maximum amount of Net Income Available for Debt Service reasonably practicable given such law or regulations and (z) each of the Debt Service Coverage Ratios in subsection (B)(v) and (w) is at least 1.00.

Notwithstanding (i) and (ii) of this clause (a), Long-Term Additional Indebtedness may also be incurred as described in this clause in a principal amount which in the aggregate will not exceed 10% of the aggregate of Total Revenues of the Obligated Group as reflected on the most recent available combined revenue and expense statement of the Obligated Group.

(b) Completion Indebtedness, provided that a certificate of an architect is filed with the Master Trustee stating (i) the necessity for (A) the improvement, replacement, renovation or substitutions for or additions to facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred

due to faulty design, damage to or destruction of such facilities or (B) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, (ii) that such proposed facilities are within the original scope contemplated at the time such Long-Term or Interim Indebtedness was incurred, (iii) the amount of such Completion Indebtedness needed, (iv) the use to which the proceeds of such Completion Indebtedness will be put, and (v) the amount of such Completion Indebtedness, together with other available funds, are expected to be sufficient to complete such facilities.

(c) Refunding Indebtedness so long as the maximum annual debt service on such Refunding Indebtedness does not exceed 120% of the maximum annual debt service on the Indebtedness being refunded.

(d) Short-Term Indebtedness and leases for equipment capitalized under generally accepted accounting principles, provided that the principal amount of such Indebtedness shall be limited to 15% of Total Revenues of the Obligated Group, provided further that all Short-Term Indebtedness shall be reduced to no more than 5% of the Total Revenues of the Obligated Group for at least 20 days during any fiscal year, except a fiscal year during the last 120 days of which any third party reimbursor or insurer providing in excess of 20% of the Total Operating Revenues of the Obligated Group is in arrears in excess of 120 days of accounts payable to any Obligated Issuer. Any amount in excess of such 15% limitation shall be required to meet the tests set forth in (a)(ii) above.

(e) Project Indebtedness.

(f) Subordinated Indebtedness.

(g) Interim Indebtedness incurred in anticipation of the issuance of additional Long-Term Indebtedness, provided that at the time such Interim Indebtedness is incurred or renewed (i) the anticipated refinancing thereof by the issuance of Long-Term Indebtedness is reasonably expected to be completed within the following 48 months and (ii) the Obligated Group Representative shall certify that all requirements of (a)(ii) above would be satisfied if such Indebtedness were being incurred with substantially equal annual payments to be paid for principal and interest over a term which is the greater of 20 years or the weighted average useful life of the facilities being financed with an interest rate equal to the Assumed Rate.

(h) Balloon Indebtedness so long as the Obligated Group Representative certifies that all requirements of (a)(ii) above would be satisfied if the maturity or maturities constituting the balloon payment had been issued over a term which is the greater of 20 years or the weighted average useful life of the facilities being financed with an interest rate equal to the Assumed Rate and was payable in approximately equal annual payments of principal and interest.

(i) Put Indebtedness, so long as the Obligated Group Representative certifies that all requirements of (a)(ii) above would be satisfied if the Indebtedness had been issued over a term of 20 years at an interest rate equal to the Assumed Rate and was payable in approximately equal installments of principal and interest.

Completion Indebtedness, Refunding Indebtedness, Project Indebtedness, Subordinated Indebtedness, Balloon Indebtedness, Put Indebtedness and Interim Indebtedness which is Long-Term Indebtedness shall not be subject to the tests set forth in clause (a) above, unless the Borrower and each Obligated Issuer, if any, elects to issue such Indebtedness as Long-Term Indebtedness pursuant to clause (a) above. In addition, any Indebtedness issued or guaranteed by the Borrower or any Obligated Issuer pursuant to any of the preceding paragraphs may at any time and from time to time, if the same shall be permitted to be issued or guaranteed pursuant to another paragraph, be reclassified by the Borrower as having been issued or guaranteed by the Borrower or such Obligated Issuer pursuant to such other paragraph.

### **Restrictions on Guaranties**

The Borrower and each Obligated Issuer covenants that they will not become liable under any Guaranty unless (i) such Guaranty is permitted as Long-Term Indebtedness under clause (a) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" or (ii) such Guaranty is of the Indebtedness of an Obligated Issuer or of Related Bonds.

### **Covenant as to Coverage of Debt Service**

If the Debt Service Coverage Ratio, as calculated at the end of any fiscal year of the Borrower, is below 1.10, the Borrower and each Obligated Issuer will retain an Independent Consultant to make recommendations to increase the Debt Service Coverage Ratio for subsequent fiscal years to at least 1.10 or, if in the opinion of such Independent Consultant the attainment of such level is impracticable, to the highest practicable level. The Borrower and each Obligated Issuer will follow the recommendations of the Independent Consultant to the extent feasible, and that promptly upon receipt of such recommendations, subject to existing law and applicable third-party payor programs or agreements, shall revise their respective rates, fees or charges or methods of operation and shall take such other action as shall be in conformity with such recommendations; provided, however, that if the Obligated Group does not meet the rate covenant as a result of existing laws, regulations or third party payor agreements, the Obligated Group Representative shall provide to the Master Trustee an Opinion of Counsel stating that the reasons for not meeting the rate covenants were valid. So long as the Borrower and each Obligated Issuer follow such recommendations, no event of default will occur under the Master Indenture unless and until such Debt Service Coverage Ratio falls below 1.00.

### **Sale, Lease or Other Disposition of Cash, Securities and Operating Assets**

Except as provided in the next paragraph, the Borrower and each Obligated Issuer will not sell, lease (as lessor) or otherwise dispose of any of its cash, securities or other cash equivalents or Operating Assets (other than in the ordinary course of business) unless the Borrower or such Obligated Issuer certifies that:

(a) with respect to Operating Assets, such assets have become, or within the succeeding 24 calendar months are reasonably expected to become, in the Borrower's or such Obligated Issuer's judgment, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and such disposition will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets; or

(b) such sale, lease or disposition is solely from the Borrower and or another Obligated Issuer to the Borrower or another Obligated Issuer; or

(c) if the sale, lease or disposition will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets then either (i) the leasing of all or any part of its Operating Assets is pursuant to the reasonable requirements of the Borrower and or such Obligated Issuer and upon terms no less favorable to the Borrower and or such Obligated Issuer than are obtainable in a comparable arm's length transaction or (ii) the sale or disposition of all or any part of its Operating Assets is pursuant to the reasonable requirements of the Borrower or any other Obligated Issuer and for consideration, which shall take the form of cash, securities or real or personal property, having a fair market value at least equal to the fair market value of such Operating Assets sold or disposed of; or

(d) immediately after such transaction, either (i) the Debt Service Coverage Ratio for the most recent 12 consecutive calendar months for which audited financial statements are available preceding the proposed date of such transaction, assuming such transaction actually occurred at the beginning of such period, would not be less than 1.75 and would not have been reduced or, if reduced, would not have been reduced by more than 25%; or (ii) the Debt Service Coverage Ratio for each of the two fiscal years immediately following the proposed date of such transaction is expected to be: (1) greater than 1.75 and not less than 75% of the Debt Service Coverage Ratio for the most recent 12 consecutive calendar months for which audited financial statements are available preceding the proposed date of such transaction; or

(2) higher than it would have been had such transactions not been effected; provided, however, an Independent Consultant must confirm such certificate; or

(e) such sale, lease or disposition involves only Excluded Property; or

(f) there has occurred damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets of the Borrower or any other Obligated Issuer in an amount at least equal to 15% of the aggregate Book Value of all Property of the Obligated Group and the Obligated Group Representative has elected not to repair or restore said Operating Assets, in which case the net proceeds of any related insurance or award in eminent domain proceedings may be applied as provided in the Master Indenture to the redemption of the Notes.

Without complying with the foregoing, the Borrower or any other Obligated Issuer may sell, lease or otherwise dispose of any cash, securities or other cash equivalents or Operating Assets if the face value of the cash, securities or other cash equivalents or Operating Assets disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of in any one fiscal year does not exceed 5% of the aggregate Book Value of all Property of the Obligated Group at the beginning of such fiscal year.

If any sale, lease or disposition permitted under clause (b), (c) or (d) is to any organization other than an organization described in Section 501(c)(3) of the Code or if such property is reasonably expected to be used for a purpose other than the organization's exempt purpose, prior to that sale, lease or disposition there shall be delivered to the Master Trustee an opinion of bond counsel to the effect that such sale, lease or disposition would not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on the Bonds or on any other issue of Related Bonds then outstanding under a Related Bond Indenture.

#### **Obligated Issuer Defined**

An Obligated Issuer is required to guarantee to the Master Trustee payment of all Notes and Guaranties issued under the Master Indenture and outstanding at the time of its becoming an Obligated Issuer, and it becomes obligated under the Master Indenture by agreeing to comply with substantially the same covenants, and be subject to substantially the same restrictions, as the Borrower. The assets and liabilities of an Obligated Issuer and the results of its operations are combined or consolidated with those of the Borrower (with the elimination of material inter-company balances and transactions) for the purposes of determining compliance with the provisions of the Master Indenture, including those which restrict the incurrence of Additional Indebtedness, the mortgaging of assets and the maintenance of minimum Debt Service Coverage Ratios. An Obligated Issuer would also be permitted to issue Notes and Guaranties under the Master Indenture if the requirements for such issuance are met. By virtue of the joint and several liability of all members of the Obligated Group, Notes and Guaranties thereafter issued under the Master Indenture by the Borrower or an Obligated Issuer are guaranteed by the other. Along with other considerations, a person may not become an Obligated Issuer until (A) the Master Trustee receives a report by an Independent Consultant which demonstrates that after giving effect thereto, there would not be a default under the Master Indenture and that any member of the Obligated Group would meet the conditions described in subsection (a)(ii) under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" herein for the incurrence of one dollar of Long-Term Additional Indebtedness, and unless (B) immediately after consummation of the transaction the aggregate fund balances of the Obligated Group will be not less than 90% of such aggregate fund balances prior to consummation of the transaction, and an officer's certificate so stating is filed with the Master Trustee prior to consummation of the transaction. Also included in the conditions precedent to any person becoming an Obligated Issuer is the requirement that the Master Trustee receive an Opinion of Counsel that all provisions of federal and state securities laws relating to the transaction have been complied with, and an opinion of bond counsel to the effect that the subsequent consummation thereof would not affect the exclusion for federal income tax purposes of interest payable on the Bonds or on any other issue of Related Bonds then outstanding under a Related Bond Indenture.

Any Obligated Issuer, excluding the Borrower, may withdraw from the Obligated Group if, among other things, (A) immediately upon any such person withdrawing as an Obligated Issuer, the Borrower and each other remaining Obligated Issuer would meet the conditions described in subsection (a)(ii) under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" herein for the



incurrence of one dollar of Long-Term Additional Indebtedness and (B) a certificate of an Independent Consultant is delivered indicating that the Debt Service Coverage Ratio for the fiscal year immediately following such withdrawal is expected to be (i) greater than 1.10 or (ii) higher than it would have been had such withdrawal not been effected (measured as if withdrawals occurring in the same fiscal year but prior to the withdrawal in question had not occurred).

### **Consolidation, Merger, Sale or Conveyance**

The Borrower and each Obligated Issuer will not merge or consolidate with any other corporation not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group unless (a) either the Borrower or the Obligated Issuer is the continuing corporation or the successor is a domestic corporation and such corporation assumes in writing all of the obligations of the Borrower or the Obligated Issuer under the Master Indenture, and (b) immediately after such consolidation, merger, sale or conveyance, the Borrower or the Obligated Issuer or such successor corporation, as the case may be, together with other members of the Obligated Group, (i) would not be in default under the Master Indenture, and (ii) would be able to satisfy the conditions for the incurrence of an additional dollar of Long-Term Indebtedness referred to in clause (a)(ii) under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" herein after giving effect to the proposed transaction, and (c) an opinion of independent certified public accountants certifying that the Obligated Group will have unrestricted fund balances for the first fiscal year following such consolidation, merger, sale or conveyance of assets at least equal to ninety percent (90%) of the Obligated Group's unrestricted fund balances for the fiscal year immediately preceding such consolidation, merger, sale or conveyance.

Any such consolidation, merger, sale or conveyance is conditioned upon the receipt by the Master Trustee of an opinion of bond counsel to the effect that the subsequent consummation thereof would not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on the Bonds and on any other Related Bonds then Outstanding and an Opinion of Counsel shall be delivered to the Master Trustee to the effect that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions set forth above and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any Supplemental Master Indenture.

### **Insurance and Reductions in Coverage**

The Borrower and any other Obligated Issuer will maintain insurance or a self-insurance plan covering such risks and in such amounts as, in its judgment, is adequate to protect it and its Properties and operations. Such insurance or self-insurance plan is subject to the biennial review of an independent insurance consultant knowledgeable in the insurance field, and the Borrower and any other Obligated Issuer shall follow any recommendation of such consultant to the extent feasible.

If the Borrower and any other Obligated Issuer have or obtain any of the following types of insurance, they must secure the approval of such insurance consultant before they may reduce or eliminate the amount of their insurance coverage for the following types of insurance: (a) comprehensive general public liability insurance, including product liability, blanket contractual liability and automobile insurance, (b) fire, lightning, windstorm, tornadoes, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard extended coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such perils, (c) workmen's compensation insurance, (d) boiler insurance, and (e) professional liability or medical malpractice insurance, provided that (i) with respect to activities conducted in the State of Indiana, the Borrower and any other Obligated Issuer may not reduce medical malpractice insurance to a coverage of less than the minimum amount required by Indiana Code 16-9.5 (the "Malpractice Act") so long as the Borrower and any other Obligated Issuer are qualified thereunder unless the Malpractice Act is determined by judicial decision which is not subject to further appellate review to be unconstitutional and invalid either in its entirety or as to limits on recovery and in such event the Borrower and any other Obligated Issuer may not reduce its coverage to an amount less than the typical amount maintained nationwide by similar sized hospitals and (ii) with respect to activities outside the State of Indiana, the Borrower and any other Obligated Issuer may not reduce their coverage to an amount less than the typical amount maintained nationwide by similar sized hospitals. Notwithstanding the foregoing, the Borrower shall not be permitted to eliminate the coverage described in clause (e) above.

In deciding whether to concur in such reductions or eliminations, the independent insurance consultant shall determine whether the additional financial risk, if any, being assumed by the Borrower or other Obligated Issuer is prudent in light of the savings to be realized from lowered insurance premiums or in light of the general availability of such coverage.

Before the Borrower or other Obligated Issuer may enter into a program of self-insurance against any particular risk for which it has not been previously self-insured, an independent insurance consultant must certify that such a program will not disqualify the Borrower or other Obligated Issuer for reimbursement under Medicare or Medicaid programs or any governmental programs providing similar benefits, and that if it is a necessary requirement for reimbursement under Medicare, Medicaid or other similar governmental program, adequate reserves for such a program have been created, deposited and are maintained with an independent corporate trustee if recommended by the independent insurance consultant. The Borrower or other Obligated Issuer agrees (a) to provide the Master Trustee annually a written evaluation with respect to any self-insurance programs prepared by an independent insurance consultant, which evaluation shall contain or be accompanied by a recommendation of an independent actuary as to what funding levels will be adequate to protect the Borrower or other Obligated Issuer against such claims, (b) to maintain with an independent corporate trustee such reserves as are recommended by the independent insurance consultant, (c) to provide the Master Trustee an officer's certificate showing compliance with (b) hereof, and (d) to maintain a risk management and claims management program pursuant to such self-insurance program. Furthermore, so long as the Series 2005 Note is outstanding, the Borrower and each Obligated Issuer agree not to self-insure with respect to Operating Assets without the prior written consent of the Bond Insurer.

#### **Other Covenants of the Borrower and Other Obligated Issuers**

The Borrower and each Obligated Issuer respectively covenant, among other things, (a) to preserve its existence as a corporation and all its rights, licenses and qualifications necessary or desirable in the operation of its business and affairs; (b) to procure and maintain all necessary licenses and permits, if it operates a hospital, maintain accreditation of its health care facilities by the Joint Commission on Accreditation of Healthcare Organizations and maintain the eligibility of its health care services for all third-party reimbursement programs, unless its board of directors determines in good faith that compliance therewith is no longer in its best interest and lack of such compliance would not materially impair its ability to pay its Indebtedness when due and in the opinion of bond counsel would not cause interest on any issue of Related Bonds then outstanding under a Related Bond Indenture, including the Bonds, to lose the exclusion from gross income for federal income tax purposes; provided further, that, so long as the Series 2005 Note is outstanding, the Borrower and each Obligated Issuer must comply with the above covenants unless the Master Trustee receives the prior written consent of the Bond Insurer to such lack of compliance or evidence that one dollar of Long Term Additional Indebtedness could be issued as described in paragraph (a)(ii) under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness" herein; (c) to carry on its business in an efficient manner and maintain its Property in good repair and working order; (d) to conduct its affairs and carry on its business in compliance with all applicable laws of the United States and the several states thereof, and comply with all applicable rules or regulations of any governmental authority; (e) to promptly pay all taxes, governmental charges and assessments against its Property unless contested by it in good faith; (f) to promptly satisfy and discharge all of its obligations and claims against it as they become due and payable, and all of its obligations and Indebtedness as and when due to the extent that the failure to so satisfy and discharge would materially and adversely affect its consolidated or combined financial condition; (g) to comply with the terms of all Mortgages existing upon its Property; (h) to maintain its status as a tax-exempt organization described in Section 501(c)(3) of the Code and its exemption from federal income taxation under Section 501(a) of the Code; (i) to file certain financial information periodically with the Master Trustee; and (j) under certain circumstances to file various reports with the Master Trustee.

#### **Defaults and Remedies**

Each of the following is an "Event of Default" under the Master Indenture:

- (a) Failure to make any payment of the principal of, premium, if any, or interest on any Note or any Indebtedness collateralized or secured by any Note when due and payable or shall fail to make any payment on any Guaranty when and as the same shall become due and payable;

(b) Failure to observe or perform any covenant or agreement contained in the Master Indenture for a period of 30 days after written notice of such failure has been given by the Master Trustee or by the holders of at least 25% in aggregate principal amount of Outstanding Notes; provided that if any such default can be cured by the Borrower or any other Obligated Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Borrower or any other Obligated Issuer within such 30-day period and diligently pursued until the default is corrected;

(c) Default in the payment of any Indebtedness (other than Project Indebtedness, Notes or Guaranties) or an event of default as defined in any Mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced any Indebtedness, unless the Borrower or any Obligated Issuer in good faith commences proceedings to contest payment on such Indebtedness and sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness; provided further however, that the Indebtedness must be Outstanding in an amount exceeding \$100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date of the Master Indenture);

(d) Bankruptcy, insolvency, liquidation or other similar events;

(e) Any representation or warranty of any member of the Obligated Group set forth in the Master Indenture proves untrue in any material respect and is not corrected within 30 days after written notice by the Master Trustee; or

(f) Any judgment, writ or warrant of attachment or any similar process in an amount in excess of \$100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date of the Master Indenture) shall be entered or filed against the Borrower or any Obligated Issuer or against any of its Property and remains unvacated, unpaid, unbonded, uninsured or unstayed for a period of 60 days and the Borrower or other Obligated Issuer shall have failed to deposit with the Master Trustee within 15 calendar days of the receipt of notice of such event, an amount sufficient to pay such judgment, writ or warrant of attachment or similar process in full.

If any Event of Default has occurred and is continuing, the Master Trustee may and if requested by the holders of not less than 25% in aggregate principal amount of Notes then outstanding, shall, by notice in writing to the Borrower or other Obligated Issuer, declare the principal of all outstanding Notes to become immediately due and payable. If all Events of Default other than nonpayment of amounts that have become due as a result of such declaration or acceleration are remedied, the holders of a majority in aggregate principal amount of all Notes then outstanding may waive all Events of Default and rescind and annul such declaration and its consequences. For the purpose of acceleration or waivers, holders of Related Bonds, including the Bonds offered hereby, will be considered to be the holders of Notes in a principal amount equal to that of the Related Bonds held by them. Notwithstanding the foregoing, the Bond Insurer is considered to be the owner of the Series 2005 Note, and the Series 2005 Note shall only be accelerated at the direction of the Bond Insurer.

The Master Trustee may institute any actions or proceedings at law or in equity for the collection of sums due, and may collect such sums in a manner provided by law out of the Property of the Borrower wherever situated.

### **Modifications**

The Obligated Issuers and the Master Trustee may, without the consent of the holders of the Notes, enter into amendments or supplements to the Master Indenture to (a) set forth any or all matters necessary in connection with the issuance of additional Notes or Guaranties; (b) add additional covenants of the Borrower or other Obligated Issuer for the protection of the holders of Notes or Guaranties; (c) cure any ambiguity or defective provision of the Master Indenture as shall not adversely affect the interest of the holders of the Notes or Guaranties; (d) evidence a succession of another corporation to the agreements of the Obligated Issuers, or their successors under the Master Indenture; (e) qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute hereafter enacted; (f) evidence additions to, or withdrawals from, membership in the Obligated Group; (g) provide for substitute trustees or co-trustees in accordance with the Master Indenture; (h) provide for the

issuance of coupon Notes if in the opinion of bond counsel the issuance of Notes in coupon form will not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on Related Bonds; and (i) in connection with any other change therein which, in the judgment of the Master Trustee, does not materially adversely affect the Master Trustee or the holder of the Notes.

The Obligated Issuers and the Master Trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Notes, otherwise amend or supplement the Master Indenture, subject to the provisions contained in the Master Indenture requiring that no such amendment or supplement shall change the times or amounts of the principal of, premium, if any, or interest payable on any Note or the currency of payment, permit the preference or priority of any Note or Notes, or reduce the principal amount or redemption price of any Note or the rate of interest thereon or the aforesaid percentage of Notes the holders of which are required to consent to any such amendment or supplement, without the consent of the holders of all outstanding Notes. For purposes of obtaining such consents, each Related Bondholder is deemed a Noteholder to the extent of the Related Bonds held. Notwithstanding the foregoing, the Bond Insurer is considered to be the holder of the Series 2005 Note and the outstanding Bonds for the purposes described in this paragraph.

### **Substitution of Notes**

All Notes issued pursuant to the Master Indenture shall, upon the request of an Obligated Issuer and the satisfaction of all terms and conditions set forth in the Master Indenture, be substituted with an original replacement note or notes or similar obligation issued by any Obligated Issuer (the "Substitute Notes") under and pursuant to and secured by a master trust indenture (the "Replacement Master Indenture") executed by all current members of the Obligated Group and any other entities which are parties to and obligated with respect to indebtedness issued under such Replacement Master Indenture (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture, which Substitute Notes have been duly authenticated by the New Trustee, upon receipt of the Master Trustee of the following:

- (a) an Opinion of Bond Counsel that the surrender of the Notes and the acceptance by the Master Trustee of the Substitute Notes will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal income taxation to which interest on any Notes or any Related Bonds would otherwise be entitled;
- (b) an executed counterpart of the Replacement Master Indenture;
- (c) an opinion of counsel to the Obligated Issuers addressed to the Master Trustee to the effect that:
  - (i) the Replacement Master Indenture has been duly authorized, executed and delivered by each member of the New Group, each Substitute Note has been duly authorized, executed and delivered by an Obligated Issuer and each of the Replacement Master Indenture and each Substitute Note is a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity;
  - (ii) all requirements and conditions to the issuance of the Substitute Notes set forth in the Replacement Master Indenture have been complied with and satisfied; and
  - (iii) registration of the Substitute Notes under the Securities Act of 1933, as amended, is not required or, if such registration is required, the New Group has complied with all applicable provisions of said Act;
- (d) a certificate of the Obligated Group Representative is delivered to the Master Trustee stating that the New Group, considered as a pro forma consolidated or combined group for purposes of the Master Indenture, with the elimination of material inter-company balances and transactions, would, after

giving effect to such Substitute Notes and assuming that the New Group constituted the Obligated Group under the Master Indenture and that the Substitute Notes were issued under the Master Indenture, would satisfy the conditions necessary for the incurrence of Long-Term Additional Indebtedness;

(e) the Replacement Master Indenture containing (i) the agreement of each member of the New Group (A) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Indenture) to jointly and severally make payments upon each note and obligations including the Substitute Notes, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation, and (ii) representations and warranties of the members of the New Group no less restrictive than those set forth in the Master Indenture; and

(f) either

(i) the Replacement Master Indenture containing terms, covenants and provisions no less restrictive than those contained in certain provisions of the Master Indenture, except for (A) such differences as in the judgment of the Master Trustee are not to the prejudice of the holders of the Notes and (B) such other differences as the Master Trustee shall determine are necessary for the benefit of the holders of the notes and obligations, including the Substitute Notes, issued under the Replacement Master Indenture, and any additional rights, remedies, powers or authority or additions to the covenants of the New Group or assignments and pledges of additional revenues, properties and collateral under the Replacement Master Indenture for the benefit of such holders; or

(ii) written confirmation from each Rating Agency then rating any Outstanding Related Bonds of any Obligated Issuer than, upon consummation of the proposed transactions, the ratings on such Related Bonds (without regard to any credit enhancement of the Related Bonds) will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Notes; provided, however, that if, prior to the consummation of the proposed transactions, any such Outstanding Related Bonds are not then rated by any Rating Agency, such a rating shall be obtained, which rating, as evidenced by the written confirmation of such rating service, will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Notes; and

(g) such other opinions and certificates as the Master Trustee may reasonably require, together with such reasonable indemnities as the Master Trustee may request.

**SUMMARY OF CERTAIN PROVISIONS  
OF THE SUPPLEMENTAL MASTER INDENTURE NO. 8**

**Covenants**

The Borrower makes certain covenants in the Supplemental Master Indenture No. 8 in addition to the existing covenants of the Borrower, which are effective so long as the Bonds are outstanding and the Bond Insurance Policy is in full force and effect. The Bond Insurer, in its sole discretion, may waive these additional covenants. Among these additional covenants are modifications to certain definitions in the Master Indenture, and additional covenants (which may be more restrictive to the Borrower than existing covenants) including but not limited to the following: a springing mortgage, a capitalization ratio, a debt service coverage ratio, days cash on hand, and a springing debt service reserve fund.

## **SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE**

### **Defeasance of Lien**

The lien created by the Bond Indenture will terminate when the Authority has paid or has been deemed to have paid the holders of all of the Bonds the principal and interest and premium, if any, due or to become due thereon at the times and in the manner stipulated in the Bond Indenture, all Reimbursement Amounts have been paid to the Bond Insurer, and all other obligations owing to the Bond Trustee under the Bond Indenture or the Loan Agreement have been paid or provided for.

Outstanding Bonds shall be deemed to have been paid within the meaning of the Bond Indenture if the Bond Trustee will have paid to the holders of such Bonds, or shall be holding in trust for and shall have irrevocably committed to the payment of such Outstanding Bonds, moneys sufficient for the payment of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be; provided, that if any of such Bonds are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, the Bond Trustee, the Borrower and the Authority shall have received an opinion of Bond Counsel that such payment and the holding thereof by the Bond Trustee shall not in and of itself cause interest on the Bonds to be included in gross income for federal income tax purposes; and provided, further, that if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given to the Bondholders and the Borrower or irrevocable provision satisfactory to the Bond Trustee shall have been duly made for the giving of such notice; and provided, further, that Bonds paid by payments made under the Bond Insurance Policy shall be deemed to be Outstanding Bonds until the Bond Insurer is paid all Reimbursement Amounts.

Outstanding Bonds also shall be deemed to have been paid if the Bond Trustee shall be holding under an escrow agreement in trust for and shall have irrevocably committed to the payment of such Outstanding Bonds cash or United States Obligations the principal payments on which when due, without reinvestment, will provide moneys which, together with moneys, if any, so held and so committed, shall be sufficient for the payments of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be; provided, that if any of such Bonds are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, the Bond Trustee, the Authority, the Borrower and the Bond Insurer shall have received (i) an opinion of Bond Counsel that such payment and the holding of such United States Obligations and moneys, if any, shall not in and of itself cause interest on the Bonds to be included in gross income for federal income tax purposes; (ii) an escrow agreement in form and substance acceptable to the Bond Insurer, the Bond Trustee and the Borrower; which shall provide that (a) any substitution of securities in the escrow shall require the prior written consent of the Bond Insurer and a report from a firm of certified public accountants verifying the sufficiency of the escrow, (b) neither the Authority nor the Borrower will exercise any optional redemption of the Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemption, unless the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in the official statement for the refunding bonds and, as a condition of any such redemption there shall be provided to the Bond Insurer, a report from a firm of certified public accountants as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption, and (c) neither the Authority nor the Borrower shall amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior consent of the Authority; and (iii) a report in form and substance acceptable to the Bond Insurer, the Bond Trustee and the Borrower of a firm of certified public accountants acceptable to the Bond Insurer, the Bond Trustee and the Borrower verifying that the payments on such United States Obligations, if paid when due and without reinvestment, will, together with any moneys so deposited, be sufficient for the payment of all principal of and interest and premium, if any, on such Bonds to the date of maturity or redemption, as the case may be; (iv) an Opinion of Counsel stating that the escrow agreement is valid and enforceable; (v) an Opinion of Bond Counsel stating that the Bonds have been defeased and (vi) an Opinion of Counsel that (a) the escrow deposit will not constitute a voidable preference or transfer under the Federal Bankruptcy Code, as amended, or any other similar state or federal statute in the event the Authority or the Borrower becomes a debtor within the meaning of the Federal Bankruptcy Code, as amended, or comes within the protection of such similar state or federal statute ("Insolvency Event") and (b) in such Insolvency Event, the escrow deposit will not be treated as part of the estate of the Authority or the Borrower; and provided, further, that if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been duly given or irrevocable provision satisfactory to the Bond Trustee will have been duly made for the giving of such notice.

Any moneys held by the Bond Trustee in the manner provided by the provisions of the Bond Indenture regarding "Defeasance of the Lien" will be invested by the Bond Trustee in the manner provided by the Bond Indenture. The making of any such investments or the sale or other liquidation thereof will not be subject to the control of the Authority or the Borrower, and the Bond Trustee will have no responsibility for any losses or adverse tax consequences resulting from such investment. Any income or interest earned by, or increment to, such investment, to the extent determined from time to time by the Bond Trustee to be in excess of the amount required to be held by it for the purposes of the Bond Indenture, shall be paid first to the Bond Trustee and then to the Authority to the extent necessary to repay any unpaid obligations owing to the Bond Trustee and/or the Authority under the Bond Indenture or under the Loan Agreement, and then to the Bond Insurer to the extent necessary to pay any Reimbursement Amounts owing to the Bond Insurer, and thereafter any remainder shall be paid to the Borrower.

After all Outstanding Bonds shall have been deemed to have been paid and all other amounts required to be paid under the Bond Indenture shall have been paid, then upon the termination of the Bond Indenture any amounts in the Project Fund and the Bond Fund shall be paid first to the Bond Trustee and then to the Authority to the extent necessary to repay any unpaid obligations owing to the Bond Trustee and/or the Authority under the Bond Indenture or under the Loan Agreement, and then to the Bond Insurer to the extent necessary to pay any Reimbursement Amounts owing to the Bond Insurer, and thereafter the remainder, if any, shall be paid to the Borrower.

### **The Bonds**

*Interest and Payment Terms of Bonds other than ARS.* Except as provided in the provisions of the Bond Indenture with respect to ARS and Bank Bonds, the interest rate and Interest Rate Period on and for the Bonds may be adjusted as set forth in the Bond Indenture. Except while the Bonds bear interest at Bond Interest Term Rates, all Bonds shall bear the same interest rate for the same Interest Rate Period. No Bond shall bear interest in excess of the Maximum Bond Interest Rate, except that the interest rate paid by the Borrower on Bank Bonds pursuant to any Liquidity Facility or agreement providing for a Liquidity Facility shall not exceed the Maximum Bank Bond Interest Rate.

Interest on the Bonds shall be paid on each Interest Payment Dates and redemption date and on the Maturity Date therefor. Except during a Long-Term Interest Rate Period, interest on the Bonds shall accrue on the basis of the actual number of days elapsed during the Interest Rate Period and a year of 365 days (366 days in a leap year). Interest on the Bonds bearing interest at a Long-Term Interest Rate shall accrue on the basis of a 360-day year based on twelve 30-day months.

Each Bond shall bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on such Bonds has been paid in full or duly provided for, from such date of authentication or, if it is the first payment of interest on such Bonds, the date thereof. If interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the date to which interest has been paid in full on the Bonds so surrendered or, if no interest has been paid on such Bonds, from the date thereof.

For any Daily Interest Rate Period, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of such month. For any Bonds in a Weekly Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on and including the second preceding Interest Accrual Date) and ending on and including the Tuesday immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period).

For any Short-Term Interest Rate Period or Long-Term Interest Rate Period, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date. In any event, interest on the Bonds shall be payable for the final Interest Rate Period to the date on which the Bonds have been paid in full.

Except when the Bonds are ARS, the terms of the Bonds shall be divided into consecutive Interest Rate Periods during which each of the Bonds shall bear interest at the Daily Interest Rate, Weekly Interest Rate, Bond



Interest Term Rates or Long-Term Interest Rate. However, at any given time, all Bonds other than ARS shall bear interest at a Daily Interest Rate, a Weekly Interest Rate or a Long-Term Interest Rate or at Bond Interest Term Rates.

#### **Weekly Interest Rate and Weekly Interest Rate Period**

*Determination of Weekly Interest Rate.* During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent as described in the Bond Indenture. Each Weekly Interest Rate with respect to the Bonds shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week with respect to the Bonds bearing interest at such rate, then the Weekly Interest Rate for such week with respect to the Bonds shall be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the BMA Index, or if such index is no longer available, 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided in the Bond Indenture for such Weekly Interest Rate Period.

#### **Daily Interest Rate and Daily Interest Rate Period**

*Determination of Daily Interest Rate.* During each Daily Interest Rate Period, the Bonds shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) on or before 1:00 p.m. on the date of determination for each Daily Interest Rate Period to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day.

If for any reason a Daily Interest Rate for the Bonds is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (A) the date on which the Remarketing Agent determines a new Daily Interest Rate or (B) the seventh day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate for the Bonds shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven days as described in clause (B) of the immediately preceding sentence, the interest rate applicable to the Bonds, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* as reported for each Business Day (and for the immediately preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by such Remarketing Agent.

#### **Long-Term Interest Rate and Long-Term Interest Rate Period**

*Determination of Long-Term Interest Rate.* During each Long-Term Interest Rate Period, the Bonds shall bear interest at a Long-Term Interest Rate. The Long-Term Interest Rate for each Long-Term Interest Period shall be determined by the Remarketing Agent on a Business Day no later than the effective date of such Long-Term Interest Rate Period. The Long-Term Interest Rate shall be the rate of interest per annum determined by the

Remarketing Agent to be the minimum interest rate at which the Remarketing Agent will agree to purchase the Bonds on such effective date for resale at a price (without regard to accrued interest) equal to the principal amount thereof.

*Conversion to Long-Term Interest Rate.* Subject to the provisions of the Bond Indenture concerning Conversion of Interest Rate Periods, the Borrower on behalf of the Authority, by written direction to the Authority, the Bond Trustee, the Tender Agent, the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Auction Agent (if any) and the Broker-Dealer (if any), may elect that the Bonds shall bear, or continue to bear, interest at a Long-Term Interest Rate. The direction of the Borrower shall be accompanied by a form of the notice to be mailed by Bond Trustee to the Holders of the Bonds. During a Long-Term Interest Rate Period for the Bonds, the interest rate on the Bonds shall be a Long-Term Interest Rate.

If the Bond Trustee has not received timely written notice of the Borrower's election that, during the next succeeding Interest Rate Period, the Bonds shall bear interest at a Weekly Interest Rate, a Daily Interest Rate, the Applicable ARS Rate or another Long-Term Interest Rate or at Bond Interest Term Rates, the next succeeding Interest Rate Period shall be a Weekly Interest Rate Period until such time as the interest rate shall be adjusted to a Daily Interest Rate or Long-Term Interest Rate or Bond Interest Term Rates or the Applicable ARS Rate as provided in the Bond Indenture, and the Bonds shall be subject to mandatory purchase as provided in the Bond Indenture on the first day of such Weekly Interest Rate Period.

*Conversion from Long-Term Interest Rate Period.* Subject to the provisions of the Bond Indenture concerning Conversion of Interest Rate Periods, the Borrower on behalf of the Authority may elect by written direction to the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any) and the Remarketing Agent (if any), that, on the day immediately following the last day of a Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to the Bond Indenture, the Bonds shall no longer bear interest at the current Long-Term Interest Rate and shall instead bear interest at a Weekly Interest Rate, a Daily Interest Rate, Bond Interest Term Rates, the Applicable ARS Rate or a new Long-Term Interest Rate, as specified in such election.

### **Bond Interest Term Rates and Short-Term Interest Rate Periods**

*Determination of Bond Interest Terms and Bond Interest Term Rates.* During each Short-Term Interest Rate Period each Bond shall bear interest during each Bond Interest Term at the Bond Interest Term Rate for that Bond. The Bond Interest Term and the Bond Interest Term Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. Each Bond Interest Term and Bond Interest Term Rate shall be determined by the Remarketing Agent no later than the first day of each Bond Interest Term. Each Bond Interest Term shall be a period of not more than 180 days, determined by the Remarketing Agent in its reasonable judgment to be the period which, together with all other Bond Interest Terms for all Bonds bearing interest at Bond Interest Term Rates then Outstanding, will result in the lowest overall interest expense on such Bonds.

If for any reason a Bond Interest Term for any Bond bearing interest at Bond Interest Term Rates cannot be determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term shall be 30 days, but if the day so determined is not a day immediately preceding a Business Day, that Bond Interest Term shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Maturity Date, the Bond Interest Term shall end on the day immediately preceding such Maturity Date.

The Bond Interest Term Rate for each Bond Interest Term for each Bond in a Short-Term Interest Rate Period shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by such Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Bond on the effective date of such Bond Interest Term at a price equal to the principal amount thereof.

If for any reason a Bond Interest Term Rate for any Bond in a Short-Term Interest Rate Period (other than a Bank Bond) is not established by the Remarketing Agent for any Bond Interest Term, or the determination of such Bond Interest Term Rate is held by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate

for such Bond Interest Term, as determined by the Remarketing Agent, shall be the rate per annum equal to 70% of the interest rate on high-grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* as reported on the first day of such Bond Interest Term and which maturity most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being calculated.

### **Determinations of Remarketing Agent Binding**

The determination of the Daily Interest Rate, Weekly Interest Rate and Long-term Interest Rate and each Bond Interest Term and Bond Interest Term Rate under the Bond Indenture by the Remarketing Agent shall be conclusive and binding upon the Borrower, the Authority, the Bond Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider and the Bondholders.

### **Bank Bonds**

The Bank Bonds shall bear interest at the Bank Bond Rate for the period commencing from the date that the Liquidity Provider shall have purchased the Bond and, subject to the terms of the Bond Indenture, continuing until the Liquidity Provider (or a purchaser from the Liquidity Provider other than a purchaser which purchased such Bond through the Remarketing Agent) shall no longer be the owner of such Bond; and such interest shall accrue and be payable on any Interest Payment Date for such Bank Bonds.

### **Rescission of Election to Convert Interest Rate**

Notwithstanding anything in the Bond Indenture, in connection with any Conversion of the Interest Rate Period for the Bonds, the Borrower shall have the right to deliver to the Bond Trustee, the Remarketing Agent (if any), the Tender Agent (if any), the Liquidity Facility Provider (if any), the Authority, the Bond Insurer, the Auction Agent (if any) and the Broker-Dealer (if any) on or prior to 10:00 a.m. on the second Business Day preceding the effective date of any such Conversion a written notice to the effect that the Borrower on behalf of the Authority elects to rescind its election to make such Conversion. If the Borrower rescinds its election to make such Conversion, then the Bonds shall bear interest at a Weekly Interest Rate, commencing on the date which would have been the effective date of the Conversion; provided, however, that if the Bonds were in a Daily Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion and if the Bonds were ARS immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the ARS Interest Period as in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the holders of such Bond as provided in the Bond Indenture and the Borrower rescinds its election to make such Conversion, then the Bonds (except ARS) shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Bond Indenture.

### **Additional Conditions; Failure to Meet Conditions**

No Conversion from one Interest Rate Period to another shall take effect unless each of the conditions specified in the Bond Indenture, to the extent applicable, shall have been satisfied. In the event that any condition to the Conversion of the Bonds shall not have been satisfied, then the Bonds shall bear interest at a Weekly Interest Rate, commencing on the date which would have been the effective date of the Conversion; provided, however, that if the Bonds were ARS immediately prior to such proposed Conversion, then the Bonds shall remain ARS and shall bear interest at the ARS Maximum Rate for the immediately ensuing ARS Interest Period, and the Bonds (except ARS) shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Bond Indenture.

### **Purchase of Bonds**

*During Weekly Interest Rate Period.* During any Weekly Interest Rate Period any Bonds (other than a Bank Bond) bearing interest at a Weekly Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Bond not to be purchased shall also be in an Authorized Denomination) from its Bondholder at the option of the Bondholder on any Business Day at a purchase price equal to the Tender Price,

payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of Bonds, to the Bond Trustee at its Principal Office and to the Remarketing Agent of an irrevocable written notice which states the principal amount of such Bond, the principal amount thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m. shall be deemed to have been received on the next succeeding Business Day. Bank Bonds may not be tendered for purchase at the option of the holder thereof. For payment of the Tender Price on the Tender Date, such Bond must be delivered at or prior to 10:00 a.m. on the Tender Date to the Tender Agent at its Principal Office for delivery of Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Bondholder or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

During any Weekly Interest Rate Period for which the book-entry-only system is in effect, any Bond bearing interest at the Weekly Interest Rate or portion thereof shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for such Bond to the Tender Agent at its Principal Office for the delivery of such Bond, to the Bond Trustee at its Principal Office and to the Remarketing Agent. That notice shall state the principal amount of such Bond (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day at least seven days after the date of delivery of such notice to the Bond Trustee. Upon confirmation by the Securities Depository to the Bond Trustee that such Participant has an ownership interest in the Bonds at least equal to the amount of Bonds specified in such irrevocable written notice, payment of the Tender Price of such Bond shall be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Bond Trustee of the Tender Price as set forth in the Bond Indenture on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Bond tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 10:00 a.m., on the date specified in such notice.

*During Daily Interest Rate Period.* During any Daily Interest Rate Period, any Bonds (other than a Bank Bond) bearing interest at a Daily Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Bond not to be purchased shall also be in an Authorized Denomination) from its Bondholder at the option of the Bondholder on any Business Day at a purchase price equal to the Tender Price, payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of Bonds and to the Bond Trustee at its Principal Office and to the Remarketing Agent, by no later than 11:00 a.m. on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of such Bonds to be purchased and the date of purchase. For payment of such purchase price on the date specified in such notice, such Bonds must be delivered, at or prior to 12:00 noon, on such Business Day, to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to such Tender Agent, executed in blank by the Bondholder thereof or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

During any Daily Interest Rate Period for which the book-entry-only system is in effect, any Bond bearing interest at the Daily Interest Rate or portion thereof shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for such Bond to the Tender Agent at its Principal Office for the delivery of such Bonds, to the Bond Trustee at its Principal Office and to the Remarketing Agent prior to 11:00 a.m. That notice shall state the principal amount of such Bond (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased. Upon confirmation by the Securities Depository to the Bond Trustee that such Participant has an ownership interest in the Bonds at least equal to the amount of Bonds specified in such irrevocable written notice, payment of the Tender Price of such Bond shall be made by 3:00 p.m., or as soon as practicably possible thereafter, upon the receipt by the Bond Trustee of the Tender Price as set forth in the Bond Indenture on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Bond tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 1:30 p.m. on the date specified in such notice.

*Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term.* On the first day following the last day of a Bond Interest Term (during a Short-Term Interest Rate Period), unless such day is the first day of a new Interest Rate Period (in which case a Bond shall be subject to mandatory tender for purchase as described in the paragraph below), a Bond shall be subject to mandatory tender for purchase at the Tender Price, payable by wire transfer in immediately available funds, if such Bond is delivered to the Tender Agent on or prior to 12:00 noon on the Tender Date, or if delivered after 12:00 noon, on the next succeeding Business Day. Interest shall cease to accrue on such Bond on the last day of each Bond Interest Term. The Tender Price shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

*Mandatory Tender for Purchase on First Day of Each Interest Rate Period.* The Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period (or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the provisions of the Bond Indenture pertaining to "Rescission of Election" or "Failure to Meet Conditions" not occurred which resulted in the interest rate on such Bonds not being converted) at the Tender Price, payable in immediately available funds; provided, however, that in the case of any failed Conversion of ARS, no mandatory purchase shall apply. For payment of the Tender Price on the Tender Date, a Bond must be delivered at or prior to 10:00 a.m. on the Tender Date. If delivered after that time, the Tender Price shall be paid on the next succeeding Business Day.

*Mandatory Tender for Purchase upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender.* If at any time the Bond Trustee gives notice, in accordance with the terms of the Bond Indenture, that the Tender Price on the Bonds tendered for purchase shall, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility then in effect as a result of (i) the termination, replacement or expiration of the term, as extended, of that Liquidity Facility, including but not limited to termination at the option of the Borrower in accordance with the terms of such Liquidity Facility, or (ii) the occurrence of a Mandatory Standby Tender, then, on the fifth Business Day preceding any such termination, replacement or expiration of such Liquidity Facility, including any termination as a result of a Mandatory Standby Tender, each such Bond shall be purchased or deemed purchased at the Tender Price.

Payment of the Tender Price of any such Bond shall be made in immediately available funds by 3:30 p.m. on the Tender Date upon delivery of such Bond to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder with the signature of such Bondholder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon on the Tender Date specified in the Bond Indenture. If, as a result of any such Mandatory Standby Tender, expiration, termination with notice or replacement of such Liquidity Facility, any Bond of such Series is no longer subject to purchase pursuant to such Liquidity Facility, the Tender Agent (upon receipt from the holder thereof in exchange for payment of the Tender Price thereof) shall present such Bond to the Bond Trustee for notation of such fact thereon.

*Notice of Mandatory Tender for Purchase.* In connection with any mandatory tender for purchase of Bonds, the Bond Trustee shall give the notice required by the Bond Indenture.

*Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds.* The giving of notice by a holder of Bonds as provided in the Bond Indenture shall constitute the irrevocable tender for purchase of each Bond with respect to which such notice is given regardless of whether that Bond is delivered to the Tender Agent for purchase on the relevant Tender Date.

The Tender Agent may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided. Such refusal shall not affect the validity of the purchase of such Bond as described in the Bond Indenture. If any holder of a Bond who has given notice of tender of purchase pursuant to the Bond Indenture or any holder of a Bond subject to mandatory tender for purchase pursuant to the Bond Indenture, shall fail to deliver that Bond to the Tender Agent at the place and on the Tender Date and at the time specified, or shall fail to deliver that Bond properly endorsed, that Bond shall constitute an Undelivered Bond. If funds in the amount of the purchase price of the Undelivered Bond are available for payment to the holder thereof on the Tender Date and at

the time specified, then from and after the Tender Date and time of that required delivery (A) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Bond Indenture; (B) interest shall no longer accrue on the Undelivered Bond; and (C) funds in the amount of the Tender Price of the Undelivered Bond shall be held uninvested by the Bond Trustee for the benefit of the holder thereof (provided that the holder shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office for delivery of Bonds.

*Payment of Tender Price by Borrower.* If all or a portion of the Bonds tendered for purchase cannot be remarketed and the Liquidity Facility Provider fails to purchase all or any part of the unremarketed portion of such tendered Bonds in accordance with the Liquidity Facility on a Tender Date, the Borrower may at its option, but shall not be obligated to, pay to the Tender Agent as soon as practicable on a Tender Date immediately available funds (together with any remarketing proceeds and any funds provided under the Liquidity Facility) sufficient to pay the Tender Price on the Bonds tendered for purchase. The Tender Agent shall deposit the amount paid by the Borrower, if any, in the Borrower Purchase Account of the Bond Purchase Fund pending application of the money to the payment of the Tender Price as set forth in the Bond Indenture.

### **Liquidity Facility**

A Liquidity Facility, in an amount equal to the sum of outstanding principal and interest calculated at the Maximum Bond Interest Rate for 190 days, or such other amount as may be approved by the Bond Insurer and the Rating Agencies then rating the Bonds, shall be maintained by the Borrower for Bonds bearing interest at the Weekly Interest Rate, the Daily Interest Rate or Bond Interest Term Rates and, if and to the extent that the Borrower shall elect, for Bonds bearing interest at the Long-Term Interest Rate. No Liquidity Facility or Alternate Liquidity Facility may be delivered without the prior written consent of the Bond Insurer.

*Requests to Pay Tender Price.* If there is not a sufficient amount of money available to pay the Tender Price pursuant to the Bond Indenture on a Tender Date on which Bonds are required to be purchased, the Tender Agent shall make a Request or Requests under the Liquidity Facility in accordance with its terms, at the times and in the manner required to receive immediately available funds on the Tender Date sufficient to pay the balance of the Tender Price. The Tender Agent will deposit the proceeds of such Requests in the Liquidity Facility Purchase Account pursuant to the Bond Indenture pending application of that money to the payment of the Tender Price. In determining the amount of the Tender Price then due, the Tender Agent shall not take into consideration any Bank Bonds or Borrower Bonds. No Requests shall be made under a Liquidity Facility to pay the Tender Price of Bank Bonds or of Bonds which are registered in the name of the Borrower or, to the best knowledge of the Tender Agent, or any nominees for (or any Person who owns such Bonds for the sole benefit of) any of the foregoing. Bank Bonds and Borrower Bonds may not be tendered for purchase at the option of the Liquidity Facility Provider or the Borrower, respectively.

*Surrender of Liquidity Facility.* If an Alternate Liquidity Facility is delivered to the Tender Agent pursuant to the Bond Indenture, then the Tender Agent shall accept the Alternate Liquidity Facility and surrender the Liquidity Facility previously held for cancellation, provided that no Liquidity Facility shall be surrendered until after the date on which the Bonds required to be purchased as a result of termination, replacement, expiration, or the occurrence of a Mandatory Standby Tender, have been purchased or deemed purchased in accordance with the Bond Indenture. If a Liquidity Facility automatically terminates or is no longer required to be maintained under the Bond Indenture, the Tender Agent shall surrender such Liquidity Facility to the issuer thereof for cancellation in accordance with the terms of such Liquidity Facility. Upon the defeasance of the Bonds and if, at such time, the Bonds are no longer subject to tender for purchase, the Tender Agent shall surrender the Liquidity Facility, if any, to the Liquidity Facility Provider for cancellation in accordance with the terms of that Liquidity Facility. The Tender Agent shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof and shall deliver any certificates reducing the stated amount of the Liquidity Facility in accordance with the provisions thereof.

### **Alternate Liquidity Facility**

*Delivery by Borrower.* Not later than 15 days prior to the expiration or termination of a Liquidity Facility relating to the Bonds, in accordance with the terms of that Liquidity Facility and upon the written consent of the

Bond Insurer, the Borrower may provide for the delivery to the Tender Agent of an Alternate Liquidity Facility which has a term of at least 364 days and meeting the requirements for a Liquidity Facility under the Bond Indenture. Any Alternate Liquidity Facility delivered to the Tender Agent shall contain administrative provisions reasonably acceptable to the Tender Agent, the Remarketing Agent and the Bond Insurer. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the Borrower shall furnish to the Tender Agent the documents specified in the Bond Indenture.

*Delivery upon Rating Downgrade.* In the event that the Liquidity Facility Provider is downgraded below the top two short-term ratings by S&P or the highest short-term rating by Moody's to the extent such rating agency is then rating the Liquidity Facility Provider, the Borrower may provide for delivery of an Alternate Liquidity Facility acceptable to the Bond Insurer.

*Acceptance by Tender Agent.* If at any time there is delivered to the Tender Agent (i) an Alternate Liquidity Facility covering all of the Bonds, (ii) the information, opinions and data required by the Bond Indenture, and (iii) all information required to give the notice of mandatory tender for purchase of Bonds, then the Tender Agent shall accept such Alternate Liquidity Facility and, after such date of the mandatory tender for purchase, promptly surrender the Liquidity Facility then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to reduce the coverage of such Liquidity Facility due to the delivery of such Alternate Liquidity Facility.

*Notice of Termination.* The Bond Trustee shall give notice to the Tender Agent, the Remarketing Agent, the Bond Insurer, and the Holders of the Bonds of the termination or expiration of any Liquidity Facility in accordance with its terms as provided in the Bond Indenture.

#### **Rights and Duties under Liquidity Facility**

The Tender Agent, by accepting its appointment as such, agrees without further direction, to make requests under each Liquidity Facility then in effect, if any, for the payment or purchase of Bonds in accordance with the terms and conditions set forth in the Bond Indenture, the Tender Agent Agreement and that Liquidity Facility at the times, in the manner and for the purposes set forth therein.

#### **Notice of Termination, Event of Default or Other Change in Liquidity Facility**

The Bond Trustee shall give notice as provided in the Bond Indenture to the Holders of the Bonds of a Series secured by a Liquidity Facility of the replacement, termination or expiration of such Liquidity Facility in accordance with its terms, or in the case of any Mandatory Standby Tender under such Liquidity Facility. If there should occur any event resulting in the immediate termination or suspension of the obligation of a Liquidity Facility Provider to purchase Bonds under the terms of a Liquidity Facility, then the Bond Trustee shall as soon as practicably possible thereafter notify the Bond Insurer and the Holders of all the Bonds then outstanding secured by the Liquidity Facility as provided in the Bond Indenture.

#### **Remarketing Agent; Tender Agent**

The Remarketing Agent will keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the Borrower, the Authority, the Bond Trustee, the Tender Agent and the Liquidity Facility Provider at all reasonable times.

The Tender Agent agrees: to hold all Bonds delivered to it pursuant to the Bond Indenture as agent and bailee of, and in escrow for the benefit of, the respective holders which have delivered such Bonds until money representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such holders; to hold all Bonds registered in the name of the new holders thereof which have been delivered to it by the Bond Trustee for delivery to the Remarketing Agent in accordance with the Tender Agent Agreement; to hold Bonds for the account of the Borrower as stated in the Bond Indenture and Bank Bonds for the account of the Liquidity Facility Provider as stated in the Bond Indenture; and to keep such books and records as shall be consistent

with prudent industry practice and to make such books and records available for inspection by the Authority, the Bond Trustee, the Borrower, the Liquidity Facility Provider and the Remarketing Agent at all reasonable times.

#### **Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal**

Each Remarketing Agent shall be a member of the National Association of Securities Dealers, having a combined capital stock, surplus and undivided profits of at least \$50,000,000 and authorized by law to perform all the duties imposed upon it by the Bond Indenture and the Remarketing Agreement. A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Bond Indenture by giving notice to the Authority, the Borrower, the Bond Trustee, the Tender Agent and the Liquidity Facility Provider. Such resignation shall take effect on the 30th day after the receipt by the Borrower of the notice of resignation. A Remarketing Agent may be removed at any time on 15 days prior written notice, by an instrument signed by the Borrower, approved by the Liquidity Facility Provider and delivered to such Remarketing Agent, the Bond Trustee, the Authority and the Tender Agent. Such resignation or removal shall not take effect prior to the date that a successor Remarketing Agent has been appointed by the Borrower and has accepted such appointment; provided, however, that if a successor Remarketing Agent has not been so appointed within 30 days of the notice of the resignation of the Remarketing Agent, the Remarketing Agent may petition a court of competent jurisdiction to appoint a successor Remarketing Agent.

Each Tender Agent shall be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$15,000,000 and authorized by law to perform all the duties imposed upon it by the Bond Indenture and the Tender Agent Agreement. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Bond Indenture by giving at least 60 days' notice to the Authority, the Bond Trustee, the Borrower, the Liquidity Facility Provider and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the Borrower, and filed with the Bond Trustee. Such resignation or removal shall not take effect prior to the date that a successor Tender Agent has been appointed by the Borrower, such appointment has been approved by the Liquidity Facility Provider and the Liquidity Facility, if any, has been transferred, in accordance with its terms, to that successor. Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent shall deliver any Bonds and money held by it in such capacity to its successor.

#### **Notice of Bonds Delivered for Purchase; Purchase of Bonds; Deposit of Tender Price**

*Determination by Tender Agent; Notice of Tender.* The Tender Agent shall determine timely and proper delivery of Bonds pursuant to the Bond Indenture and the proper endorsement of Bonds delivered. That determination shall be binding on the holders of those Bonds, the Authority, the Borrower, the Liquidity Facility Provider, the Remarketing Agent and the Bond Insurer, absent manifest error. In accordance with the provisions of the Tender Agent Agreement, the Tender Agent shall give notice by telephone or telecopy, promptly confirmed by a written notice, to the Bond Trustee, the Borrower, the Authority, the Remarketing Agent and the Liquidity Facility Provider specifying the principal amount of Bonds as to which it receives notice of tender for purchase in accordance with the Bond Indenture.

*Purchase of Bonds; Sources and Deposits of Tender Price.* Bonds required to be purchased in accordance with the Bond Indenture shall be purchased from the holders thereof, on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price shall be received by the Tender Agent from the following sources and used in the order of priority indicated: proceeds of the sale of Bonds remarketed pursuant to the Bond Indenture and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Bond Purchase Fund from requests on the Liquidity Facility, if any (provided that moneys from requests on the Liquidity Facility shall not be used to purchase Bank Bonds or Bonds from the Borrower); and money, if any, furnished by the Borrower at its option to the Tender Agent, as described above under "Payment of Tender Price by Borrower," for deposit into the Borrower Purchase Account of the Bond Purchase Fund for the purchase of Bonds by the Borrower. Money held in each Bond Purchase Fund shall be held uninvested by the Tender Agent.



*Undelivered Bonds; Tender Price.* If a Bond purchased as provided in the Bond Indenture is not presented to the Tender Agent, the Tender Agent shall segregate and hold uninvested the money for the Tender Price of such Bond in trust for the benefit of the former holder of such Bond, who shall, except as provided in the following sentences of this paragraph, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Bond which remains unclaimed for two years after the date of purchase shall be paid to the Borrower. After the payment of such unclaimed money to the Borrower, the former holder of such Bond shall look only to the Borrower for the payment thereof. The Borrower shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

### **Remarketing of Bonds; Notice of Interest Rates**

*Remarketing.* Upon a mandatory tender (other than a Mandatory Standby Tender) or notice of tender for purchase of Bonds, the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds (including Bank Bonds) on the same date designated for purchase thereof in accordance with the Bond Indenture and, if not remarketed on such date, thereafter until sold, at a price equal to par plus accrued interest, with such interest being calculated as if such Bond were not a Bank Bond. Bonds subject to a Mandatory Standby Tender shall not be remarketed unless such Bonds are converted to a Long-Term Interest Rate Period to their Maturity Date or to ARS, unless an Alternate Liquidity Facility is in full force and effect or unless the Liquidity Facility Provider for such Series has reinstated the Liquidity Facility for such Series with respect to which such Mandatory Standby Tender was declared and such Liquidity Facility is in full force and effect. Bonds shall not be remarketed to the Authority or the Borrower.

*Notice of Rates and Terms.* The Remarketing Agent shall determine the rate of interest for Bonds during each Interest Rate Period and each Bond Interest Term relating thereto and the Bond Interest Terms for Bonds during each Short-Term Interest Rate Period relating thereto as provided in the Bond Indenture and shall furnish to the Bond Trustee, and the Borrower no later than the Business Day next succeeding the date of determination each rate of interest and Bond Interest Term so determined.

*Notice of Purchase and Remarketing.* The Remarketing Agent shall give notice to the Bond Trustee and the Tender Agent on each date on which Bonds have been purchased with proceeds of the sale of Bonds remarketed pursuant to the Bond Indenture and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund, specifying the principal amount of such Bonds, if any, sold by it pursuant to such remarketing along with a list of the purchasers showing the names and denominations in which such Bonds shall be registered, and the addresses and social security or taxpayer identification numbers of such purchasers.

### **Delivery of Bonds**

Bonds purchased with money from the proceeds of the sale of Bonds remarketed pursuant to the Bond Indenture shall be made available by the Bond Trustee to the Tender Agent and the Remarketing Agent for delivery to the purchasers thereof against payment therefor in accordance with the Tender Agent Agreement. Bonds purchased with money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Bond Purchase Fund from requests on the Liquidity Facility shall be registered in the name of the Liquidity Facility Provider and delivered in certificated form to the Liquidity Facility Provider as soon as practical following their purchase or held by the Tender Agent as agent for the Liquidity Facility Provider, as directed by the Liquidity Facility Provider. Bonds purchased with money furnished by the Borrower to the Tender Agent shall be held in escrow by the Tender Agent for the account of the Borrower until the Tender Agent receives further instructions from the Borrower regarding disposition of those Borrower Bonds. Notwithstanding the foregoing, such Bank Bonds shall not be remarketed, unless the Bond Insurer consents otherwise. Bonds delivered as provided in this paragraph shall be registered in the manner directed by the recipient thereof.

When any Bank Bonds are remarketed, the Tender Agent shall not release Bonds so remarketed to the Remarketing Agent until the Tender Agent has received and forwarded to the Liquidity Facility Provider the

proceeds of such remarketing and (unless the Liquidity Facility is no longer to remain in effect) the Liquidity Facility has been reinstated.

### **Delivery of Proceeds of Sale**

The proceeds of the sale by the Remarketing Agent of any Bonds shall be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund as provided in the Remarketing Agreement.

### **Inadequate Funds for Tenders**

If sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Tender Date, all Bonds shall bear interest at the lesser of the BMA Index plus three percent and the Maximum Bond Interest Rate from the date of such failed purchase until all such Bonds are purchased as required in accordance with the Bond Indenture, and all tendered Bonds, shall be returned to their respective Holders. Notwithstanding any other provision of the Bond Indenture, such failed purchase and return shall not constitute an Event of Default. Thereafter, the Bond Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider.

### **Source and Application of Funds**

The Bond Indenture creates a Project Fund, a Bond Fund, a Bond Purchase Fund, a Rebate Fund and a Debt Service Reserve Fund.

**Project Fund.** A Project Fund is established by the Authority with the Bond Trustee. Upon the issuance and delivery of the Bonds, the proceeds of the sale thereof shall be deposited in the Project Fund. The Bond Trustee will make each disbursement from the Project Fund required by the provisions of the Loan Agreement. Moneys in the Project Fund may also be invested as provided in the Bond Indenture.

The completion of the Project and payment or provision for payment of all costs of the Project will be evidenced by the filing with the Bond Trustee of the Completion Certificate required by the Loan Agreement. As soon as practicable and in any event not more than 60 days from the date of the certificate referred to in the preceding sentence, any balance remaining in the Construction Account of the Project Fund (except amounts the Borrower shall have directed the Bond Trustee in writing to retain for any cost of the Project not then due and payable) shall without further authorization be transferred into the Bond Fund and thereafter applied in the manner provided in the Loan Agreement.

Monies in the Refunding Account on the Closing Date shall be transferred by the Bond Trustee to the Trustee for the Refunded Bonds and shall be applied to the payment of the Refunded Bonds on such date.

If the principal of the Bonds shall have become due and payable because of an Event of Default, any balance remaining in the Project Fund shall without further authorization be transferred into the Bond Fund.

**Bond Fund.** A Bond Fund is established by the Authority with the Bond Trustee. Moneys shall be deposited in the Bond Fund from time to time and shall be applied solely as follows:

(i) Funds (if any) transferred from the Project Fund to the Bond Fund in accordance with the Bond Indenture shall be applied to redeem Bonds in accordance with the Bond Indenture.

(ii) Loan Payments (excluding any amounts relating to the Tender Price of Bonds) shall be deposited into the Bond Fund in the amounts required to pay the principal of and premium, if any, and interest next coming due on the Bonds.

(iii) Sums for the redemption of Bonds shall be deposited into the Bond Fund and shall be applied to make such redemptions.

(iv) Sums received upon exercise of remedies by the Bond Trustee or the Authority after an Event of Default (except sums received by the Authority pursuant to the Reserved Rights) shall be deposited in the Bond Fund. Such monies shall be applied in accordance with the provisions of the Bond Indenture.

Expense Fund. An Expense Fund is established by the Authority with the Bond Trustee. Moneys in the Expense Fund shall be disbursed upon the receipt of a certificate of the Borrower to pay for recording expenses, Bond Trustee's and depositary's fees, escrow and title insurance costs, legal fees, and other fees and expenses incurred by or on behalf of the Authority or the Borrower in connection with or as an incident to the issuance and sale of the Bonds. The income from such investments of moneys in the Expense Fund will be deposited in the Construction Account. At such time as the Borrower furnishes the Bond Trustee with a written statement stating that all such fees and expenses have been paid, the Bond Trustee shall transfer any moneys remaining in the Expense Fund into the Construction Account.

Debt Service Reserve Fund. The Bond Indenture provides for the establishment of a Debt Service Reserve Fund, which will be required to be funded upon the occurrence of specific events. There can be no assurance that the Debt Service Reserve Fund will ever be funded.

Bond Purchase Fund. In connection with the conversion of the Bonds from ARS to Bonds subject to an Interest Rate Period other than an ARS Interest Rate Period, there will be established with and maintained by the Tender Agent for such Series a "Bond Purchase Fund". The Tender Agent will further establish within each Bond Purchase Fund separate trust accounts to be referred to as a "Remarketing Account", a "Liquidity Facility Purchase Account" and an "Borrower Purchase Account."

*Remarketing Account.* Upon receipt of the proceeds of a remarketing of Bonds on a Tender Date pursuant to the Bond Indenture, the Tender Agent will deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Tender Price of such Bonds and, if the Tender Agent is not a paying agent with respect to such Bonds, will transmit such proceeds to the Bond Trustee for such application. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent will immediately pay such proceeds to the Liquidity Facility Provider.

*Liquidity Facility Purchase Account.* Upon receipt from the Liquidity Facility Provider of the immediately available funds transferred to the Tender Agent pursuant to the Bond Indenture, the Tender Agent will deposit such money in the Liquidity Facility Purchase Account of the Bond Purchase Fund for application to the Tender Price of the Bonds required to be purchased on a Tender Date in accordance with the Bond Indenture to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds will be immediately returned to the Liquidity Facility Provider.

*Borrower Purchase Account.* Upon receipt from the Borrower of any funds for the purchase of tendered Bonds, the Tender Agent will deposit such money, if any, in the Borrower Purchase Account of the Bond Purchase Fund for application to the Tender Price of the Bonds required to be purchased on a Tender Date in accordance with the Bond Indenture to the extent that the money on deposit in the Remarketing Account and the Liquidity Facility Purchase Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Borrower Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds will be immediately returned to the Borrower.

*Investment of Moneys in Funds.* Any moneys held as a part of the Project Fund, the Debt Service Reserve Fund, the Expense Fund or the Rebate Fund shall be invested or reinvested by the Bond Trustee, to the extent permitted by law, at the written request of and as directed by a Borrower Representative, in any Qualified Investments. Any moneys held as a part of any account of the Bond Fund shall be invested or reinvested by the Bond Trustee, at the written direction of the Borrower, to the extent permitted by law, in United States Obligations with such maturities as shall be required in order to assure full and timely payment of amounts required to be paid from the Bond Fund, which maturities shall, in any event, extend no more than 30 days from the date of acquisition thereof. All amounts held in the Bond Purchase Fund shall be held uninvested and separate and apart from all other funds and accounts.

**Rebate Fund.** The Bond Indenture provides for the establishment of a "Rebate Fund," which the Bond Trustee shall establish and maintain, so long as there are any Outstanding Bonds and such Bonds are subject to a requirement of the Code that arbitrage profits be rebated to the United States of America. The Bond Trustee shall make information regarding the Bonds and investments thereunder available to the Borrower. If the Borrower elects to make a deposit to the Rebate Fund, the Bond Trustee shall accept such amounts from time to time and invest those amounts in accordance with the instructions of the Borrower. Upon written instructions from the Borrower, the Bond Trustee shall disburse funds from the Rebate Fund to make payments required or transfer excess funds to the Borrower.

### **Avoidance of Arbitrage**

Each of the Authority and (in the Loan Agreement) the Borrower agrees to restrict the use of proceeds of the Bonds in such manner and to such extent as necessary to assure that the Bonds will not constitute arbitrage bonds under section 148 of the Code.

### **Nonpresentment of Bonds**

In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, if moneys sufficient to pay any such Bond shall have been deposited with the Bond Trustee for the benefit of the holder thereof, all liability of the Authority to the holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Bond Trustee to hold such funds, uninvested or invested in United States Obligations maturing overnight, but in any event without liability for interest thereon, for the benefit of the holder of such Bond which shall thereafter be restricted exclusively to such funds for any claim of whatever nature on its part under the Bond Indenture with respect to such Bond.

Any moneys so deposited with and held by the Bond Trustee not so applied to the payment of Bonds within two years after the date on which the same shall have become due shall be repaid by the Bond Trustee to the Borrower upon written direction of a Borrower Representative, and thereafter Bondholders shall be entitled to look only to the Borrower for payment, and then to the extent of the amount so repaid, and all liability of the Bond Trustee with respect to such money shall thereupon cease, and the Borrower shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

### **Events of Defaults and Remedies**

The Bond Indenture defines Events of Default to include: (a) failure to pay interest on any Bond when due and payable; (b) failure to pay any principal of or premium on any Bond when due and payable, whether at stated maturity or pursuant to any redemption requirement; (c) failure by the Authority to observe or perform any other covenant, condition or agreement on its part to be observed or performed as required within the Bond Indenture or the Bonds, for a period of 30 days after written notice of such failure shall have been given to the Borrower and the Authority by the Bond Trustee or the Bond Insurer; provided, however, that if such observance or performance requires work to be done, actions to be taken or conditions to be remedied which by its or their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default under subsection (c) will be deemed to have occurred or to exist if and so long as the Authority or the Borrower, as the case may be, shall have commenced such work, action or remediation within such 30-day period and provided written notice thereof to the Bond Trustee and shall diligently and continuously prosecute the same to completion; (d) the occurrence of a Loan Default under the Loan Agreement; or (e) the occurrence of an "Event of Default" under the Master Indenture.

*Acceleration.* Upon the occurrence of any Event of Default described in clauses (a), (b), (d) or (e) in the preceding paragraph, the Bond Trustee shall, or a Majority of the Bondholders declare all Bonds then outstanding to be due and payable immediately, and, upon such declaration, all principal and interest accrued thereon shall become immediately due and payable and there shall be an automatic corresponding acceleration of the Borrower's obligation to make all payments required to be made under the Loan Agreement and the Series 2005 Note. Interest shall accrue on the Bonds to the date of payment (even if after the date of acceleration).

*Other Remedies; Rights of Bondholders.* Subject to the rights of the Bond Insurer under the Bond Indenture, upon the continuance of an Event of Default, if so requested by a Majority of the Bondholders and if satisfactory indemnity has been furnished to it, the Bond Trustee shall exercise such of the rights and powers conferred by the Bond Indenture, Borrower Security Instruments or any other Basic Agreement as the Bond Trustee, being advised by counsel, deems most effective to enforce and protect the interests of the Bondholders or prevent the impairment of the Trust Estate; provided that the Bond Trustee may take action with respect to the Loan Agreement only to enforce the rights expressly and specifically assigned to the Bond Trustee under the Bond Indenture.

No remedy under the Bond Indenture is intended to be exclusive, and to the extent permitted by law each remedy shall be cumulative and in addition to any other remedy under the Bond Indenture or now or hereafter existing. No delay or omission to exercise any right or power shall impair such right or power or constitute a waiver of any Default or Event of Default or acquiescence therein; and each such right and power may be exercised as often as deemed expedient. No waiver by the Bond Trustee or the Bondholders of any Default or Event of Default shall extend to any subsequent Default or Event of Default.

*Right of Bondholders to Direct Proceedings.* Subject to the provisions of the Bond Indenture, but anything in the Bond Indenture to the contrary notwithstanding, the Bond Insurer (so long as it is not in default under the Bond Insurance Policy) or a Majority of the Bondholders (with the consent of the Bond Insurer unless the Bond Insurer is in default under the Bond Insurance Policy) shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, Borrower Security Instruments or any other Basic Agreement or for the appointment of a receiver or any other proceedings under the Bond Indenture; provided that such direction shall be in accordance with applicable law and the Bond Indenture and, if applicable, Borrower Security Instruments or such other Basic Agreement, and provided that the Bond Trustee shall be indemnified to its satisfaction.

*Application of Moneys.* All moneys received by the Bond Trustee pursuant to any right given or action taken following an Event of Default shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances owing to or incurred or made by the Bond Trustee, be deposited in the Bond Fund and the moneys in the Bond Fund shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST - To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest (with interest on overdue installments of such interest, to the extent permitted by law, at the rate of interest borne by the Bonds) and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

SECOND - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), (with interest on overdue installments of principal and premium, if any, to the extent permitted by law, at the rate of interest borne by the Bonds) and, if the amount available shall not be sufficient to pay in full all Bonds due on any particular date, then to the payment ratably according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD - To the payment to the persons entitled thereto as the same shall become due of the principal of and premium, if any, and interest on the Bonds which may thereafter become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with interest and premium, if any, then due and owing thereon, payment shall be made ratably according to the amount of interest, principal and premium, if any, due on such date to the persons entitled thereto without any discrimination or privilege; and

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege, with interest on overdue installments of interest or principal, to the extent permitted by law, at the rate of interest borne by the Bonds.

(c) If the principal of all the Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (b) above, in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

(d) Notwithstanding any other provisions of the Bond Indenture, including the provisions making the Bond Insurer a beneficiary of the Bond Indenture, no payment will be made to the Bond Insurer, other than by virtue of subrogation, until all amounts due to Bondholders have been paid.

*Rights and Remedies of Bondholders.* No Bondholder shall have any right to institute any proceeding for the enforcement of the Bond Indenture or any right or remedy granted by the Bond Indenture unless (i) an Event of Default is continuing, (ii) a Responsible Officer of the Bond Trustee is deemed to have notice or knowledge thereof or has been notified as provided within the Bond Indenture, (iii) a Majority of the Bondholders (with the consent of the Bond Insurer) shall have made written request to the Bond Trustee and shall have afforded the Bond Trustee reasonable opportunity to exercise its powers or to institute such proceeding in its own name, and shall have offered to the Bond Trustee indemnity satisfactory to it, and (iv) the Bond Trustee shall have failed or refused to exercise its power or to institute such proceeding. Such notice, request, offer of indemnity and failure or refusal shall at the option of the Bond Trustee be conditions precedent to the execution of the powers and trusts of the Bond Indenture, and to any action for the enforcement of the Bond Indenture or of any right or remedy granted by the Bond Indenture; the Holders of the Bonds shall have no right to affect or prejudice the lien of the Bond Indenture by their action or to enforce any right under the Bond Indenture except in the manner therein provided, and that proceedings shall be instituted and maintained in the manner therein provided, and for the benefit of the holders of all Bonds then outstanding. Notwithstanding the foregoing, each Bondholder shall have a right of action to enforce the payment of the principal of and premium, if any, and interest on any Bond held by it at and after the maturity thereof, from the sources and in the manner expressed in such Bond. The provisions of this paragraph are subject to the rights of the Bond Insurer under the Bond Indenture to control and direct all remedies in the event of an Event of Default.

*Waivers of Events of Default.* The Bond Trustee shall waive Default and its consequences and rescind any declaration of acceleration of principal upon the written request of the holders of (1) at least a majority in aggregate principal amount of all Outstanding Bonds in respect of which default in the payment of principal or interest, or both, exists or (2) at least a majority in aggregate principal amount of Outstanding Bonds in the case of any other Default, but no such waiver or rescission shall extend to any subsequent or other Default or impair any right consequent thereto. The provisions of this paragraph are subject to the provisions of the Bond Indenture under which the Bond Insurer has the sole right to waive an Event of Default.

*Intervention by Bond Trustee.* In any judicial proceeding which the Bond Trustee believes has a substantial bearing on the interests of the Bondholders, the Bond Trustee may intervene on behalf of the Bondholders.

### **Bond Insurer Provisions**

*Consent of the Bond Insurer.* Subject to the Bond Indenture, the consent of the Bondholders shall not be required under specified sections of the Bond Indenture, so long as the Bond Insurer has provided its prior written consent to such amendments to the Bond Trustee.

*Notice to Be Provided to the Bond Insurer.* Any notice required to be delivered to the Bondholders under the Bond Indenture shall also be delivered to the Bond Insurer. The Bond Trustee shall also provide the Bond Insurer with the then-current interest rate borne by the Bonds upon each occasion that such interest rates are reset.

*Bond Insurer Entitlement to Control and Direct Enforcement.* Notwithstanding anything in the Bond Indenture to the contrary, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Bond Trustee for the benefit of the Bondholders under the Bond Indenture.

## **SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**

Under the Loan Agreement, the Authority will loan to the Borrower the proceeds of the Bonds. As evidence of its obligations to repay such loan, together with interest and premium, if any, thereon, the Borrower will issue and deliver to the Authority the Series 2005 Note. The Series 2005 Note will be issued in an aggregate amount equal to the aggregate principal amount of the Bonds, will be payable in installments at the same times as the serial maturities and mandatory redemption terms of the Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same premiums, if any, as are applicable to the Bonds, and will bear interest on unpaid installments of principal equal to the interest rates per annum on the Bonds (subject to certain credits).

Under the Master Indenture, the Borrower will grant a security interest in its Gross Revenues as security for the making of payments on the Series 2005 Note. Such security interest will attach to all Notes and Guaranties, including the Series 2005 Note issued by the Borrower and any other Obligated Issuer. The Borrower may make any disbursement, expenditure or transfer from Gross Revenues which is made in accordance with the Loan Agreement and the Master Indenture.

The Series 2005 Note will be registered in the name of the Bond Trustee, and the Bond Trustee will use the payments made on such Series 2005 Note to pay the debt service on the Bonds. Except as provided in the Loan Agreement and the Bond Indenture, the loan to be made under the Loan Agreement is to be evidenced solely by the Series 2005 Note and the obligation to make loan repayments does not exist separate or independent of the Series 2005 Note.

In addition, the Loan Agreement contains covenants of the Borrower relating to its tax-exempt status, indemnification of the Authority and the Bond Trustee, and the application of the proceeds of the sale of the Bonds.

References to Bond Insurer under the Loan Agreement are only effective so long as the Bonds are outstanding and the Bond Insurance Policy is in full force and effect. The Bond Insurer is explicitly recognized as a third party beneficiary under the Loan Agreement and shall be entitled to enforce the obligations of the Bond Trustee under the Loan Agreement.



(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROCEDURES RELATING TO AUCTION RATE SECURITIES**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES

The following is a summary of certain provisions of the Bond Indenture, the Auction Agent Agreement, the Broker-Dealer Agreement and the Market Agent Agreement relating to the Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project) (the "Bonds") which on the date of issuance bear interest at Auction Rates as provided in the related Bond Indenture and the Auction Procedures thereto. This summary does not purport to be complete and is qualified by express reference to the full text thereof. Capitalized terms not defined in this Appendix D shall have the meanings set forth elsewhere in the Official Statement. Copies of each Bond Indenture, Auction Agent Agreement, Broker-Dealer Agreement and Market Agent Agreement may be obtained from the Bond Trustee. See also "THE BONDS – Auction Rate Securities" in the Official Statement for a description of certain other provisions of the documents relating to the Auction Rate Securities and "APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS (INCLUDING DEFINITIONS)" for a summary of certain other provisions of the Bond Indenture relating to the Auction Rate Securities.

#### Certain Definitions Relating to the Auction Rate Securities

"All-Hold Rate" means, on any date of determination, the interest rate per annum equal to 45% of the Index on such date; provided, that in no event shall the All-Hold Rate be more than the lesser of (i) 15% per annum or (ii) the Maximum Lawful Rate.

"Applicable ARS Rate" means, with respect to ARS, the rate per annum at which interest accrues on the Bonds for any ARS Interest Period.

"Applicable Percentage" means, as of any Auction Date, the Percentage of Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
AAA/AAA/Aaa	125%
AA/AA/Aa	150
A/A/A	175
Below A/A/A	200

"ARS" means, on any date, any Bonds when bearing interest as auction rate securities as provided in the Bond Indenture and the Auction Procedures applicable thereto.

"ARS Beneficial Owner" means the Person who is the beneficial owner of ARS according to the records of (i) a Securities Depository or its participants or a successor Securities Depository while such ARS are in book-entry form or (ii) the Bond Trustee while such ARS are not in book-entry form.

"ARS Defaulted Interest" means interest on any ARS which is payable but is not punctually paid or duly provided for on any ARS Interest Payment Date.

"ARS Interest Payment Date" means, with respect to ARS, the Business Day immediately following each Auction Period. The initial ARS Interest Payment Date for the Bonds shall be set by agreement of the Auction Agent and the Borrower.

"ARS Interest Period" means the period commencing on and including an ARS Interest Payment Date and ending on but excluding the next succeeding ARS Interest Payment Date; provided, that the first ARS Interest

Period within each ARS Interest Rate Period shall commence on and include the Closing Date or the Conversion Date, as the case may be.

"ARS Interest Rate Period" means each period during which the Bonds are ARS.

"ARS Maximum Rate" means on any date of determination, the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Index on such date, and (ii) 15% per annum; provided that in no event shall the ARS Maximum Rate be more than the Maximum Lawful Rate.

"ARS Payment Default" means (i) a default by the Borrower in the due and punctual payment of any installment of interest on ARS followed by a failure of the Insurer to honor its payment obligations under the Policy or (ii) a default by the Borrower in the due and punctual payment of any principal of ARS at stated maturity or pursuant to a mandatory redemption followed by a failure of the Insurer to honor its payment obligations under the Policy.

"ARS Rating Agency" means Moody's, Fitch or S&P, or if any of Moody's, Fitch or S&P discontinues its securities rating service, then such other nationally recognized securities rating agency as may be specified by the Market Agent with the consent of the Borrower.

"Auction" means the implementation of the Auction Procedures on an Auction Date.

"Auction Agent" means the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which "Auction Agent" shall include both the Initial Auction Agent (if it is continuing to act in such capacity under the Bond Indenture) and each such Substitute Auction Agent so acting.

"Auction Agent Agreement" means, on any date, each Initial Auction Agent Agreement and each Substitute Auction Agent Agreement, relating to the Auction Rate Securities, in each case as from time to time in effect.

"Auction Date" means, with respect to ARS, the Business Day next preceding the first day of each Auction Period, other than (i) each Auction Period commencing after the ownership of such ARS is no longer maintained in book-entry form by a Securities Depository; (ii) each Auction Period commencing after the occurrence and during the continuance of an ARS Payment Default; or (iii) any Auction Period commencing less than two Business Days after the cure or waiver of an ARS Payment Default. The initial Auction Date for the Bonds shall be set by agreement between the Auction Agent and the Borrower. The Auction Date determined as provided in this definition may be adjusted as provided in the Bond Indenture.

"Auction Period" means (i) with respect to ARS in a seven-day mode, any of (A) a period, generally of seven days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of seven days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (C) a period, generally of seven days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (D) a period, generally of seven days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day) or (E) a period, generally of seven days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (ii) with respect to ARS in a 28-day mode,

any of (A) a period, generally of 28 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of 28 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (C) a period, generally of 28 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (D) a period, generally of 28 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or (E) a period, generally of 28 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day); and (iii) with respect to ARS in a 35-day mode, any of (A) a period, generally of 35 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of 35 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (C) a period, generally of 35 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (D) a period, generally of 35 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or (E) a period, generally of 35 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day); provided, however, that the initial Auction Period with respect to the Bonds shall begin on and include the Closing Date and shall end on the dates agreed to by the Borrower and the Auction Agent; provided further, that in the event of a Conversion of the Bonds from another Interest Rate Period to an ARS Interest Rate Period the initial Auction Period following such Conversion shall begin on and include the Conversion Date.

"Auction Procedures" means the provisions set forth in the Auction and Settlement Procedures set forth in Exhibit B to the Auction Agent Agreement.

"Auction Rate" means, with respect to the interest rate on ARS, the rate of interest per annum that results from implementation of the Auction Procedures, and determined as described in the Auction Procedures; provided, however, that the Auction Rate shall not exceed the ARS Maximum Rate. While the Auction Procedures are suspended, the Auction Rate will be determined as otherwise described in the Bond Indenture.

"Bid" has the meaning provided in the Auction Procedures.

"Broker-Dealer" means Piper Jaffray & Co., or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which (i) is a participant in or member of the Securities Depository as determined by the rules or bylaws of the Securities Depository (or an affiliate of such a participant or member), (ii) has been approved by the Insurer, which approval shall not be unreasonably withheld, (iii) has been appointed as

such by the Borrower pursuant to the Bond Indenture, and (iv) has entered into a Broker-Dealer Agreement that is in effect on the date of reference. When used at a time when more than one Broker-Dealer is acting under the Bond Indenture, the term "the Broker-Dealer" shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the ARS.

"Broker-Dealer Agreement" means each agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented with consent of the Insurer. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement dated as of July 1, 2005, between the Initial Auction Agent and Piper Jaffray & Co.

"Change of Tax Law" means, with respect to any ARS Beneficial Owner, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the Closing Date, which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under section 103 of the Code.

"Commercial Paper Dealer" means initially Piper Jaffray & Co., its successors and assigns, and any other commercial paper dealer appointed as provided in the Bond Indenture. The Borrower may remove a commercial paper dealer by notifying the Bond Trustee in writing.

"Existing Holder" means, (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction, and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a person who is the ARS Beneficial Owner of the ARS.

"Existing Holder Registry" means the registry of Persons who are ARS Beneficial Owners of ARS, maintained by the Auction Agent as provided in the Auction Agent Agreement.

"Favorable Opinion of Bond Counsel" means, with respect to any action relating to the Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the applicable parties, to the effect that such action is permitted under the Bond Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

"Fitch" means FitchRatings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Bond Trustee.

"Hold Order" has the meaning provided in the Auction Procedures.

"Index" means, as of any date of determination the "AA" Financial Commercial Paper Rate. The "AA" Financial Commercial Paper Rate means the interest equivalent of the 30-day rate on financial commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P or another nationally recognized securities rating agency, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination. If, however, the Federal Reserve Bank of New York does not make available any such rate, then the "AA" Financial Commercial Paper Rate shall mean, as of any date of determination, the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted in writing to the Auction Agent or the Bond Trustee, as the case may be, on a discount basis or otherwise, by the Commercial Paper Dealers, as of the close of business on the Business Day immediately preceding such date of determination. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Financial

Commercial Paper Rate, the "AA" Financial Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished in writing by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (i) 100 multiplied by (ii) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) multiplied by the number of days from (and including) the date of determination to (but excluding) the date on which such commercial paper matures and the denominator of which shall be 360.

"Initial Auction Agent" means The Bank of New York, its successors and assigns.

"Initial Auction Agent Agreement" means the Auction Agent Agreement dated as of July 1, 2005, between the Bond Trustee and the Initial Auction Agent, relating to the Bonds, including any amendment thereof or supplement thereto.

"Initial Market Agent" means Piper Jaffray & Co., its successors and assigns.

"Market Agent" means the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into, after which "Market Agent" shall include both the Initial Market Agent and each Substitute Market Agent so acting.

"Market Agent Agreement" means the Market Agent Agreement dated as of July 1, 2005 between the Bond Trustee and the Initial Market Agent and each Substitute Market Agent Agreement, in each case as from time to time in effect.

"Maturity Date" has the meaning set forth in each Bond.

"No Auction Rate" means, as of any Auction Date, the rate determined by multiplying the Percentage of Index set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index (provided that in no event will the No Auction Rate exceed the ARS Maximum Rate):

<b><u>Prevailing Rating</u></b>	<b><u>Percentage of Index</u></b>
AAA/Aaa/AAA	70%
AA/Aa/Aa	75%
A/A/A	85%
Below A/A/A	100%

"Non-Payment Rate" means, on any date of determination, the interest rate per annum equal to 225% of the Index on such date (as such percentage may be adjusted pursuant to the Bond Indenture); provided, that in no event shall the Non-Payment Rate be more than the lesser of 15% per annum or the Maximum Lawful Rate.

"Notice of ARS Payment Default" means a notice substantially in the form of Exhibit E to the Auction Agent Agreement.

"Notice of Cure of ARS Payment Default" means a notice substantially in the form of Exhibit A to the Bond Indenture.

"Notice of Percentage Change" means a notice to the Bond Trustee and the Auction Agent substantially in the form provided as Exhibit B to the Market Agent Agreement.

"Notice of Proposed Percentage Change" means a notice to the Bond Trustee and the Auction Agent substantially in the form provided as Exhibit A to the Market Agent Agreement.



"Order" has the meaning provided in the Auction Procedures.

"Potential Holder" means, with respect to any Auction, any Person, including any Existing Holder, who may be interested in acquiring a beneficial interest in ARS subject to such Auction in addition to the ARS, if any, currently owned by such Person.

"Prevailing Rating" means, with respect to the Bonds, (a) AAA/AAA/Aaa, if the Bonds shall have a rating of AAA or better by S&P and Fitch and a rating of Aaa or better by Moody's, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the Bonds shall have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody's, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the Series of Bonds shall have a rating of A- or better by S&P and Fitch and a rating of A3 or better by Moody's, (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, then below A/A/A. For purposes of this definition, S&P's and Fitch's rating categories of "AAA," "AA-," "A-," and Moody's rating categories of "Aaa," "Aa3," "A3," shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the Bonds are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there are no Prevailing Ratings because no Rating Agency currently rates the Bonds, the Prevailing Ratings shall be deemed to be below A/A/A.

"Record Date" means with respect to the Bonds which are ARS, the second Business Day next preceding each ARS Interest Payment Date.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended, and any successor thereto.

"Sell Order" has the meaning provided in the Auction Procedures.

"Special Record Date" means a special date fixed to determine the names and addresses of holders of ARS for purposes of paying interest on a special interest payment date for the payment of defaulted interest, all as further provided in the Bond Indenture.

"Submitted Hold Orders" has the meaning provided in the Auction Procedures.

"Substitute Auction Agent" means the Person with whom the Bond Trustee enters into a Substitute Auction Agent Agreement.

"Substitute Auction Agent Agreement" means an auction agent agreement acceptable to the Insurer containing terms substantially similar to the terms of the Initial Auction Agent Agreement whereby a Person having the qualifications required by the Bond Indenture agrees with the Bond Trustee to perform the duties of the Auction Agent set forth therein with respect to the Bonds.

"Substitute Market Agent" means the Person with whom the Bond Trustee enters into a Substitute Market Agent Agreement.

"Substitute Market Agent Agreement" means a market agent agreement containing terms substantially similar to the terms of the initial Market Agent Agreements entered into between the Bond Trustee and a market agent selected by Borrower.

"Sufficient Clearing Bids" has the meaning provided in the Auction Procedures.

### **Payments with Respect to ARS**

Interest with respect to ARS shall accrue from and including, as applicable, the Closing Date, the Conversion Date or the most recent ARS Interest Payment Date to which interest has been paid or duly provided for.

The Bond Trustee shall determine the aggregate amount of interest payable on each ARS Interest Payment Date. Interest due on any ARS Interest Payment Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the Applicable ARS Rate, multiplied by (ii) the principal amount of \$25,000, multiplied by (iii) the number of days in the ARS Interest Period, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward). The Bond Trustee shall notify the Securities Depository of its calculations, as provided in the Bond Indenture.

Interest on ARS shall be computed on the basis of a 360-day year for the actual number of days elapsed. The Applicable ARS Rate for each ARS Interest Period after the first ARS Interest Period shall be the Auction Rate; provided that (i) if a notice of a proposed adjustment in the percentages used to determine the ARS Maximum Rate, the All-Hold Rate, the No Auction Rate and the Non-Payment Rate shall have been given by the Market Agent in accordance with the provisions of the Bond Indenture described under the caption "—Adjustment in Percentages" and, because of a failure to satisfy the conditions set forth in the provisions of the Bond Indenture described under such caption, such adjustment shall not have taken effect, then an Auction with respect to ARS shall not be held on the Auction Date immediately preceding the next succeeding ARS Interest Payment Date and the Applicable ARS Rate for such next succeeding ARS Interest Period shall equal the ARS Maximum Rate on such Auction Date; and (ii) in the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period (except as otherwise contemplated pursuant to (i) above or (x) and (y) below), the Auction Rate for such Auction Period shall be the No Auction Rate (which No Auction Rate shall be determined by the Bond Trustee).

Notwithstanding the foregoing, (x) if the ownership of the ARS is no longer maintained in book-entry form by a Securities Depository, the Applicable ARS Rate for any ARS Interest Period commencing after the delivery of certificates representing the ARS shall equal the ARS Maximum Rate; or (y) if an ARS Payment Default shall have occurred with respect to the ARS, the Applicable ARS Rate for the ARS Interest Period commencing on or immediately after such ARS Payment Default and for each ARS Interest Period thereafter, to and including the ARS Interest Period, if any, during which, or commencing less than two Business Days after, such ARS Payment Default is cured in accordance with the Bond Indenture, shall equal the Non-Payment Rate on the first day of each such ARS Interest Period, provided that if an Auction occurred on the Business Day immediately preceding any such ARS Interest Period, the Applicable ARS Rate for such ARS Interest Period shall be the Non-Payment Rate.

*Computation of Interest Distributable on ARS.* The Bond Trustee will calculate the amount of interest distributable to ARS Beneficial Owners in respect of each \$25,000 in principal amount thereof for any ARS Interest Period or part thereof, by applying the Applicable ARS Rate with respect to the ARS, for such ARS Interest Period or part thereof, to the principal amount of \$25,000, multiplying such sum by the actual number of days in such ARS Interest Period or part thereof divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upward).

*ARS Defaulted Interest.* By 2:00 p.m., New York City time, on each ARS Interest Payment Date, the Bond Trustee will determine whether an ARS Payment Default has occurred. If an ARS Payment Default has occurred, the Bond Trustee will send a Notice of ARS Payment Default to the Auction Agent and each Broker-Dealer, not later than 2:30 p.m. New York City time on such Business Day. If such ARS Payment Default is cured, the Bond Trustee will immediately send a Notice of Cure of ARS Payment Default to the Auction Agent and each Broker-Dealer. ARS Defaulted Interest will cease to be payable to the ARS Beneficial Owner on the relevant Record Date by virtue of having been such ARS Beneficial Owner and such ARS Defaulted Interest will be payable to the Person in whose name the ARS are registered at the close of business on a Special Record Date fixed by the Bond Trustee, which will not be more than 15 days and not less than ten days prior to the date of the proposed payment of ARS Defaulted Interest.

## **Description of Auction**

### *Auction Participants*

*Existing Holders and Potential Holders.* Participants in each Auction will include: (i) "Existing Holders," which shall mean any Person who is listed as the ARS Beneficial Owner in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction, and (ii) "Potential Holders," which shall

mean any Person, including any Existing Holder, who may be interested in acquiring ARS (or, in the case of an Existing Holder, an additional principal amount of ARS).

*Auction Agent.* The Bond Indenture directs the Bond Trustee to enter into the Initial Auction Agent Agreement with the Initial Auction Agent. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Bond Indenture by giving at least 45 days' notice to the Bond Trustee, the Broker-Dealer, the Authority, the Borrower, the Insurer, and the Market Agent. The Auction Agent may be removed at any time by the Bond Trustee, upon the written direction of (i) the Borrower, with the consent of the Insurer or (ii) the ARS Beneficial Owners of 66-2/3% of the aggregate principal amount of the ARS then outstanding with the consent of the Insurer, by an instrument signed by the Bond Trustee and filed with the Auction Agent, the Insurer, the Market Agent, the Authority and the Borrower upon at least 30 days' notice. Neither the resignation nor removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a Substitute Auction Agent shall have been appointed and accepted such appointment; provided, however that if a Substitute Auction Agent has not been so appointed within 45 days of any notice of resignation or removal of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a Substitute Auction Agent. The Auction Agent may terminate the Auction Agent Agreement and be relieved of its responsibilities thereunder if, within 45 days after notifying the Bond Trustee, the Authority, the Borrower, the Insurer and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it, the Auction Agent does not receive such payment. The Auction Agent may be removed at any time, at the written request of the Borrower with Insurer consent (which consent shall not be unreasonably withheld), for any breach of its obligations under the Bond Indenture or the Auction Agent Agreement. The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under the Bond Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; acts of terrorism; epidemics; riots; interruptions, loss or malfunctions of utilities; computer (software or hardware) or communications services; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body, the Bond Trustee, at the written direction of the Borrower, will use its best efforts to appoint a Substitute Auction Agent.

The Bond Trustee shall not be liable for any action, omission or error in judgment by the Auction Agent. Absent willful misconduct, grossly negligent failure to act or gross negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any good faith error of judgment unless the Auction Agent shall have been grossly negligent in ascertaining (or failing to ascertain) the pertinent facts. The Bond Trustee will not be liable for any action, omission or error in judgment by the Auction Agent.

*Broker-Dealer.* The Auction Agent will enter into a Broker-Dealer Agreement with Piper Jaffray & Co., as the initial Broker-Dealer. The Borrower may, from time to time, approve one or more additional Persons to serve as Broker-Dealers. Any Broker-Dealer may be removed at any time, at the written request of the Borrower, with the written consent of the Authority and the Insurer (which consent shall not be unreasonably withheld).

*Market Agent.* The Bond Indenture directs the Bond Trustee, as agent for the ARS Beneficial Owners, to enter into the Market Agent Agreement with the Initial Market Agent. The Market Agent shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Indenture and the Market Agent Agreement. The Market Agent may be removed by the Bond Trustee at any time upon and pursuant to the written direction of (i) the Borrower with Insurer consent, (ii) the Insurer or (iii) the ARS Beneficial Owners of 66-2/3% of the aggregate principal amount of the ARS then outstanding with Insurer consent; provided that such removal shall not take effect until the appointment by the ARS Beneficial Owners or the Bond Trustee of a Substitute Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the Bond Trustee.

## *Auction Procedures*

### Submission of Orders

While the ownership of the ARS is maintained in book-entry form, an Existing Holder may sell, transfer or otherwise dispose of ARS only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions of the Bond Indenture, Auctions will be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner.

Prior to the Submission Deadline: (a) each Existing Holder of ARS may submit to a Broker-Dealer by telephone or otherwise any information as to: (i) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Hold Order"); (ii) the principal amount of outstanding ARS, if any, which such Existing Holder desires to continue to hold for the next succeeding ARS Interest Period if the Auction Rate for such ARS Interest Period shall not be less than the rate per annum then specified by such Existing Holder and which such Existing Holder offers to sell if the Auction Rate for the next succeeding ARS Interest Period shall be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder offers to sell for the next succeeding ARS Interest Period without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Sell Order"); and (b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of ARS which each Potential Holder offers to purchase if the Auction Rate for the next succeeding ARS Interest Period shall not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and Sell Order shall be an "Order." Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder."

*Bids by Existing Holders.* Subject to the provisions described below under "*Validity of Orders*," a Bid by an Existing Holder shall constitute an irrevocable offer to sell, in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof: (i) the principal amount of outstanding ARS specified in such Bid if the Auction Rate shall be less than the rate specified in such Bid, (ii) such principal amount or a lesser principal amount of outstanding ARS to be determined as described below in "*Acceptance and Rejection of Orders*," if the Auction Rate shall be equal to the rate specified in such Bid; or (iii) such principal amount or a lesser principal amount of outstanding ARS to be determined as described below in "*Acceptance and Rejection of Orders*," if the rate specified therein shall be higher than the ARS Maximum Rate and Sufficient Clearing Bids have not been made.

*Sell Orders by Existing Holders.* Subject to the provisions described below under "*Validity of Orders*," a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell, in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof: (i) the principal amount of outstanding ARS specified in such Sell Order if Sufficient Clearing Bids exist; or (ii) such principal amount or a lesser principal amount of outstanding ARS as described below in "*Acceptance and Rejection of Orders*," if Sufficient Clearing Bids have not been made.

*Bids by Potential Holders.* Subject to the provisions described below under "*Validity of Orders*," a Bid by a Potential Holder shall constitute an irrevocable offer to purchase, in each case for settlement in same day funds on the next ARS Interest Payment Date therefor at a price equal to 100% of the principal amount thereof: (i) the principal amount of outstanding ARS specified in such Bid if the Auction Rate shall be higher than the rate specified in such Bid, or (ii) such principal amount or a lesser principal amount of outstanding ARS as described below in "*Acceptance and Rejection of Orders*," if the Auction Rate is equal to the rate specified in such Bid.

Each Broker-Dealer shall submit in writing (or any other method acceptable to both parties) to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each Order: (A) the name of the Bidder placing such Order, and (B) the aggregate principal amount of ARS that are subject to such Order. To the extent that such Bidder is an Existing Holder, each Broker-

Dealer shall specify: (i) the principal amount of ARS, if any, subject to any Hold Order placed by such Existing Holder, (ii) the principal amount of ARS, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid, and (iii) the principal amount of ARS, if any, subject to any Sell Order placed by such Existing Holder. To the extent such Bidder is a Potential Holder, each Broker-Dealer shall specify the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one-thousandth (.001) of one percent.

If an Order or Orders covering all outstanding ARS held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of outstanding ARS held by such Existing Holder and not subject to an Order submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of outstanding ARS to be converted held by such Existing Holder, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Holder covering the principal amount of outstanding ARS to be converted, held by such Existing Holder, not subject to Orders submitted to the Auction Agent.

None of the Borrower, the Authority, the Bond Trustee, or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any of the Borrower, the Authority, the Bond Trustee, or the Auction Agent be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

#### Validity of Orders

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of outstanding ARS held by such Existing Holder, such Orders shall be considered valid as follows and in the order of priority described below.

*Hold Orders.* All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of outstanding ARS held by such Existing Holder, and if the aggregate principal amount of ARS subject to such Hold Orders exceeds the aggregate principal amount of ARS held by such Existing Holder, the aggregate principal amount of ARS subject to each such Hold Order shall be reduced so that the aggregate principal amount of ARS subject to such Hold Orders equals the aggregate principal amount of outstanding ARS held by such Existing Holder.

*Bids.* Any Bid shall be considered valid up to and including the excess of the principal amount of outstanding ARS held by such Existing Holder over the aggregate principal amount of ARS subject to any Hold Order referred to above. Subject to the preceding sentence, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of outstanding ARS subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess. Subject to the preceding sentences, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess. In any such event, the amount of outstanding ARS, if any, subject to Bids not valid under the provisions described in this paragraph shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

*Sell Orders.* All Sell Orders shall be considered valid up to and including the excess of the principal amount of outstanding ARS held by such Existing Holder over the aggregate principal amount of ARS subject to Hold Orders and valid Bids referred to in the preceding two paragraphs.

If more than one Bid for ARS is submitted on behalf of any Potential Holder, each Bid submitted with the same rate shall be aggregated and considered a Bid, and each Bid submitted with a different rate shall be considered

a separate Bid with the rate and principal amount therein specified. Any Order covering an aggregate principal amount of ARS not equal to an Authorized Denomination shall be rounded down to the nearest Authorized Denomination, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount.

Any Bid specifying a rate higher than the ARS Maximum Rate will be treated as a Sell Order if submitted by an Existing Holder and will not be accepted if submitted by a Potential Holder. Any Bid submitted by an Existing Holder or on behalf of a Potential Holder specifying a rate lower than the All-Hold Rate shall be considered as valid and shall be selected in the ascending order of their respective rates contained in the Submitted Bids.

Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell Order," respectively (collectively, "Submitted Orders").

#### Determination of Sufficient Clearing Bids and Winning Bid Rate

Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall notify the Trustee and the Broker-Dealers by telephone (confirmed to the Trustee in writing or by facsimile transmission after the Auction) of the All-Hold Rate and the ARS Maximum Rate so determined and the No Auction Rate or the Index, as the case may be, used to make such determination.

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all Submitted Orders and will determine:

(a) the excess of the total principal amount of outstanding ARS over the sum of the aggregate principal amount of outstanding ARS subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Series ARS"); and

(b) from the Submitted Orders whether the aggregate principal amount of outstanding ARS subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the ARS Maximum Rate exceeds or is equal to the sum of (i) the aggregate principal amount of outstanding ARS subject to Submitted Bids by Existing Holders specifying one or more rates higher than the ARS Maximum Rate and (ii) the aggregate principal amount of outstanding ARS subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because all of the outstanding ARS are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described above shall be referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate"), such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of ARS subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying such lower rates were accepted,

the result would be that such Existing Holders described in subparagraph (c)(i) above would continue to hold an aggregate principal amount of outstanding ARS, which, when added to the aggregate principal amount of outstanding ARS to be purchased by such Potential Holders described in subparagraph (c)(ii) above, would equal not less than the Available Series ARS.

### Notice of Applicable ARS Rate

Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Broker-Dealer and the Bond Trustee of the ARS Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding ARS Interest Period as follows: (a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding ARS Interest Period shall equal the Winning Bid Rate; (b) if Sufficient Clearing Bids do not exist (other than because all of the outstanding ARS are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding ARS Interest Period shall equal the ARS Maximum Rate; or (c) if all outstanding ARS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding ARS Interest Period shall equal the All-Hold Rate.

### Acceptance and Rejection of Orders

Existing Holders shall continue to hold the principal amount of ARS that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

*Sufficient Clearing Bids.* If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the denomination requirements described below, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of ARS subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(d) each Existing Holder's Submitted Bid specifying a rate equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of ARS subject to such Submitted Bid, unless the aggregate principal amount of outstanding ARS subject to all such Submitted Bids shall be greater than the principal amount of ARS (the "remaining principal amount") equal to the excess of the Available Series ARS over the aggregate principal amount of ARS subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of ARS subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of outstanding ARS held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding ARS subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) each Potential Holder's Submitted Bid specifying a rate equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the principal amount of ARS obtained by multiplying the excess of the aggregate principal amount of Available Series ARS over the aggregate principal amount of ARS subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which shall be the aggregate principal amount of outstanding ARS subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of outstanding ARS subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

*Insufficient Clearing Bids.* If Sufficient Clearing Bids have not been made (other than because all of the outstanding ARS are subject to Submitted Hold Orders), subject to the denomination requirements described below, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate shall be accepted, and specifying any rate that is higher than the ARS Maximum Rate shall be rejected; and

(c) each Existing Holder's Submitted Bid specifying any rate that is higher than the ARS Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the aggregate principal amount of ARS subject to Submitted Bids described in subparagraph (b) above which are accepted by a fraction, the numerator of which shall be the aggregate principal amount of outstanding ARS held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of outstanding ARS subject to all such Submitted Bids and Submitted Sell Orders.

*All Hold Orders.* If all outstanding ARS are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

*Authorized Denomination Requirement.* If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Clearing Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of ARS that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the principal amount of ARS to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of ARS purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Insufficient Clearing Bids, any Potential Holder would be entitled or required to purchase less than an Authorized Denomination of ARS, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate ARS for purchase among Potential Holders so that only ARS in Authorized Denominations are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any ARS.

None of the Borrower, the Authority, the Bond Trustee, the Broker-Dealers or the Auction Agent shall have any liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARS to be purchased and the aggregate principal amount of ARS to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer Submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARS to be sold differs from such aggregate principal amount of ARS to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARS.

Absent manifest error, any calculation by the Auction Agent (or the Bond Trustee, if applicable) of the Applicable ARS Rate, the Index, the ARS Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall be binding on all ARS Beneficial Owners and other parties.



## Settlement Procedures

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent is required to notify by telephone (or by other means acceptable to the parties) each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of: (i) the Auction Rate fixed for the next ARS Interest Period; (ii) whether there were Sufficient Clearing Bids in such Auction; (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be sold by such Existing Holder; (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be purchased by such Potential Holder; (v) if the aggregate principal amount of ARS to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of ARS to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARS and the principal amount of ARS to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted; (vi) if the principal amount of ARS to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the aggregate principal amount of ARS to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARS and the principal amount of ARS to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and (vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall: (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part; (ii) in the case of a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Participant to pay to such Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of ARS to be purchased pursuant to such Bid against receipt of such ARS; (iii) in the case of a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Broker-Dealer (or its Participant) through the Securities Depository the principal amount of ARS to be sold pursuant to such Order against payment therefor; (iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next ARS Interest Period; (v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and (vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any ARS received by it in connection with such Auction pursuant to paragraph (b)(iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer Submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer Submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date: (i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be; (ii) each Seller's Broker-Dealer that is not a Participant of the Securities Depository shall

instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Holder delivering ARS to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary to purchase such ARS against receipt of such ARS, and (B) deliver such ARS through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and (iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the ARS to be purchased pursuant to (b)(ii) above against receipt of such ARS, and (B) deliver such ARS through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date: (i) each Participant for a Bidder in the Auction on such Auction Date referred to in subparagraph (d)(i) above shall instruct the Securities Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository shall execute such transactions; (ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in subparagraph (d)(ii) above for such Auction, and the Securities Depository shall execute such transactions; and (iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in subparagraph (d)(iii) above for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Holder selling ARS in an Auction fails to deliver such ARS (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of ARS that is less than the principal amount of ARS that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of ARS to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of ARS shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of ARS which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

### **Agreement of Holders**

By purchasing ARS, whether in an Auction or otherwise, each prospective purchaser of ARS or its Broker-Dealer will be deemed to have agreed to the provisions for the replacement of the Auction Agent, each Broker-Dealer and the Market Agent as provided in the Bond Indenture, and relevant agreements among the Authority, the Borrower, the Bond Trustee, the Auction Agent, the Market Agent and the Broker-Dealer, as appropriate.

### **Calculation of Certain Rates Relating to an Auction**

The Auction Agent will calculate the ARS Maximum Rate and the All-Hold Rate on each Auction Date. If ownership of the ARS is no longer maintained in book-entry form by the Securities Depository, the Auction Agent will calculate the ARS Maximum Rate on the Business Day immediately preceding each ARS Interest Payment Date after the delivery of certificates representing the ARS pursuant to the Bond Indenture. If an ARS Payment Default shall have occurred, the Auction Agent will calculate the Non-Payment Rate on the first day of (i) each ARS Interest Period commencing on or after the date of the occurrence and during the continuance of such ARS Payment Default and (ii) any ARS Interest Period commencing less than two Business Days after the cure of any ARS Payment Default. The Auction Agent will determine the Index for each ARS Interest Period other than the first ARS Interest Period. If the Auction Agent fails to determine or provide the Auction Rate, then the Bond Trustee shall calculate the No Auction Rate. The determination by the Bond Trustee or the Auction Agent, as the case may be, of the Index, ARS Maximum Rate, All-Hold Rate, the No Auction Rate and Non-Payment Rate shall (in the absence of manifest error) be final and binding upon all ARS Beneficial Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Bond Trustee in writing of the Index, ARS Maximum Rate, All-Hold Rate, the No Auction Rate and Non Payment Rate.

If the Federal Reserve Bank of New York has not made available its 30-day commercial paper rate for purposes of determining the Index, the Auction Agent (or the Bond Trustee if the Auction Agent is not determining the Index), shall request that the Borrower appoint at least three Commercial Paper Dealers to provide commercial paper quotes for purposes of determining the Index; and if the Borrower shall fail to make any such appointment within three Business Days following such request, the Auction Agent (or the Bond Trustee if the Auction Agent is not determining the Index) shall appoint such Commercial Paper Dealers and notify the Borrower of such appointment.

### **Adjustment in Percentages**

The Market Agent will adjust the percentage of the Index used in determining the All-Hold Rate or the Non-Payment Rate, the Applicable Percentages used in determining the ARS Maximum Rate, and the percentage of the Index used in calculating the No Auction Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any change in market convention or Change of Tax Law such that ARS will have substantially the same market value after such change in market convention or Change of Tax Law as before such change in market convention or Change of Tax Law. In making any such adjustment, the Market Agent will take into account the following factors, as in existence both before and after such change in market convention or Change of Tax Law: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the ARS; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect, or that may be relevant to, the ARS.

The Market Agent will communicate its determination to make any such adjustment by means of a Notice of Proposed Percentage Change delivered in writing to the Authority, the Bond Trustee, the Borrower, the Broker-Dealer and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect the change. Such notice will be effective only if accompanied by the form of a Favorable Opinion of Bond Counsel.

Any such adjustment in percentages will take effect on an Auction Date only if: (i) the Bond Trustee, the Authority, the Borrower, the Broker-Dealer and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day immediately preceding such Auction Date, a Notice of Percentage Change from the Market Agent, (A) authorizing the adjustment of the percentage which shall be specified in such authorization, and (B) confirming that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel; and (ii) the Bond Trustee, the Authority, the Borrower, the Broker-Dealer, the Insurer and the Auction Agent receive by 9:30 a.m., New York City time, on such Auction Date, a Favorable Opinion of Bond Counsel. If any of these conditions are not met, the respective existing percentages will remain in effect and the rate of interest for each succeeding ARS Interest Period until each such condition is met will equal the ARS Maximum Rate on the Auction Date for such succeeding ARS Interest Period.

### **Changes in Auction Period or Auction Date**

*Changes in Auction Period.* The Auction Period shall be a 7-day period, and commence generally on a Monday. The Auction Period for the Bonds with respect to each subsequent ARS Interest Rate Period, if any, initially shall be either a seven-day period, a 28-day period or a 35-day period commencing generally on a Monday, generally on a Tuesday, generally on a Wednesday, generally on a Thursday, or generally on a Friday, in each case as announced by the Borrower in its notice of the proposed Conversion to such subsequent ARS Interest Rate Period as provided in the Bond Indenture.

During any ARS Interest Rate Period, the Borrower may from time to time and on any ARS Interest Payment Date change the length of the Auction Period between seven-days, 28 days and 35-days in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Bond Trustee, the Authority, the Insurer, the Auction Agent, the Broker-Dealer and the Securities Depository that the Auction Period shall change if the conditions described in the Bond Indenture are satisfied and the proposed effective date of the change, which shall be at least ten Business Days prior to the Auction

Date for such Auction Period. Any such changed Auction Period shall be for a period of seven days, 28 days or 35 days and shall be for all of the Bonds.

No change in the length or the day of commencement of the Auction Period for the Bonds shall be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in the paragraph above and the Auction immediately preceding the proposed change. The change in length of the Auction Period for the Bonds shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for the first such Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Holder shall be deemed to have submitted Sell Orders with respect to all of its ARS except to the extent such Existing Holder submits an Order with respect to such ARS. If the condition referred to in the second sentence of this paragraph is not met, the Auction Rate for the next Auction Period shall be the ARS Maximum Rate, and the Auction Period shall be the Auction Period already in effect.

*Changes in Auction Date.* During any ARS Interest Rate Period, the Borrower may specify an earlier Auction Date for any Business Day earlier (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS. The Borrower shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Borrower, the Broker-Dealer, the Auction Agent and the Securities Depository.

#### **Conversion to ARS Interest Rate**

If the Borrower on behalf of the Authority, elects that the Bonds shall bear interest at the Applicable ARS Rate, the Borrower's written direction to the Authority, the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider for the Bonds (if any), the Remarketing Agent (if any), the Auction Agent (if any) and each Broker-Dealer (if any) shall specify (A) the proposed effective date of the Conversion to the Applicable ARS Rate, which shall be (1) in each case, a Business Day not earlier than the 35<sup>th</sup> day after receipt by the Bond Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to the Bond Indenture if such Conversion did not occur, and (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, (B) the Tender Date for the Bonds to be purchased, which shall be the proposed effective date of the adjustment to the Applicable ARS Rate and (C) the initial Auction Period. In addition, the direction of the Borrower shall be accompanied by a form of notice to be mailed to the Holders of the Bonds by the Bond Trustee as provided in the Bond Indenture. During each ARS Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Bonds shall be the Applicable ARS Rate.

The Bond Trustee shall give notice by first-class mail of an adjustment to an ARS Interest Rate Period to the Holders of the Bonds not less than 30 days prior to the proposed effective date of such ARS Interest Rate Period, stating (A) that the interest rate shall be adjusted to the Applicable ARS Rate unless the Borrower rescinds its election to adjust the interest rate to the Applicable ARS Rate as provided in the Bond Indenture; (B) the proposed effective date of the ARS Interest Rate Period; (C) that the Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Tender Price and the place of delivery for purchase of the Bonds; and (D) the information set forth in the Bond Indenture regarding Notice of Mandatory Tender for Purchase.

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## **APPENDIX E**

### **FORM OF OPINION OF BOND COUNSEL**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

July 20, 2005

Indiana Health and Educational Facility  
Financing Authority  
Indianapolis, Indiana

Piper Jaffray & Co., as representative  
of the underwriters  
Chicago, Illinois

J.P. Morgan Trust Company,  
National Association  
Indianapolis, Indiana

Re: Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2005 (Marion General Hospital Project) issued in the aggregate principal amount of \$24,000,000 (the "Bonds") pursuant to the Trust Indenture dated as of July 1, 2005 (the "Bond Indenture"), between the Indiana Health and Educational Facility Financing Authority (the "Authority") and J.P. Morgan Trust Company, National Association, as Trustee (the "Bond Trustee"), which Bond Indenture contains an assignment of certain of the Authority's rights under the Loan Agreement, dated as of July 1, 2005 (the "Loan Agreement"), between the Authority and Marion General Hospital, Inc. (the "Hospital"), and the Series 2005 Note (the "Note"), issued pursuant to the Master Trust Indenture dated as of July 1, 1991 (the "Original Master Indenture") between the Hospital and J.P. Morgan Trust Company, National Association, as successor to INB National Bank, as master trustee (the "Master Trustee"), and as supplemented and amended by various supplemental master trust indentures, including but not limited to the Supplemental Master Indenture No. 8 dated as of July 1, 2005 (collectively, the "Master Indenture")

Ladies and Gentlemen:

We have examined a certified transcript of proceedings relating to (a) the creation and organization of the Authority; (b) the authorization, issuance and sale of the Bonds; (c) the authorization and execution of the Bond Indenture, the Loan Agreement, the Master Indenture, and the Note; (d) an opinion of Ice Miller, special counsel for the Authority; (e) executed counterparts of the Loan Agreement, the Bond Indenture, and the Master Indenture; (f) a certificate of officers of the Authority, of even date herewith, regarding the execution of the Bonds and showing no litigation pending or threatened; (g) certificates of officers of the Bond Trustee regarding the execution of the Bond Indenture, authentication of the Bonds, the guarantee of the signatures on the Bonds and showing payment for and delivery of the Bonds; (h) the executed Note; (i) certificates and other agreements of the Hospital of even date herewith; and (j) an executed Internal Revenue Service Form 8038.

We have also examined Indiana Code 5-1-16, as amended, and such other provisions of the constitution and laws of the State of Indiana (the "State") as we have deemed relevant and necessary as a basis for the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations and covenants of the Hospital and the Authority contained in the Loan Agreement and the Bond Indenture and in the certified transcript of proceedings and other certificates of officers furnished to us, including the tax covenants and representations of the Authority and the Hospital (the "Tax Covenants"), without undertaking to verify the same by independent investigation.



Based on the foregoing and our review of such other information, papers and documents as we believe necessary or advisable, we are of the opinion that:

1. The Loan Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Hospital, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

2. The Bond Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

3. The Bonds have been duly authorized, executed and issued and are valid and binding limited obligations of the Authority enforceable in accordance with their terms.

4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

5. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as in effect on the date hereof (the "Code") for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Hospital and the Authority with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

The opinion expressed in paragraph 5 is expressly limited as set forth in this paragraph. If subsequent to the date hereof the interest rate period applicable to the Bonds is changed, we are not expressing an opinion herein on the effect such change shall have on the exclusion from gross income for federal income tax purposes of interest on the Bonds. As described in the Bond Indenture, a favorable opinion of bond counsel would be required in the event of any such change.

It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee, and the Hospital and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Hospital and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

## **APPENDIX F**

### **SPECIMEN BOND INSURANCE POLICY**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)



**CIFG Assurance North America, Inc.**  
**825 Third Avenue, Sixth Floor**  
**New York, NY 10022**  
**For information, contact (212) 909-3939**  
**Toll-free (866) 243-4212**

## FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: \_\_\_\_\_

Policy No.: CIFG NA-##

CUSIP: \_\_\_\_\_

Effective Date: \_\_\_\_\_, 200\_

OBLIGATIONS: \_\_\_\_\_

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By \_\_\_\_\_  
Authorized Officer